Conceria Pasubio S.p.A.
as the issuer of
€340,000,000 Senior Secured Floating Rate Notes due 2028

Annual Report
as of and for the year ended
December 31, 2023

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SUMMARY HISTORICAL AND CERTAIN OTHER FINANCIAL DATA

The following tables set forth certain of our historical consolidated financial and other information. We present here below our summary historical consolidated financial and other information for the years ended December 31, 2022 and 2023. Such historical consolidated financial and other information has been prepared in accordance with Italian GAAP.

On October 14, 2022, a deed of merger was signed between Leather 2 S.p.A. ("Leather 2") and Conceria Pasubio S.p.A. (the "Company" and, together with its subsidiaries, the "Conceria Pasubio Group" or the "Group"), resulting in the reverse merger by incorporation (the "Merger") of Leather 2 into the Company. As a result of the Merger, the Company assumed all rights and obligations previously held by Leather 2. On October 17, 2022, the deed of merger was registered with the competent Companies' Register. For purposes of consolidation in our financial and other information, we retroactively give effect to the Merger from January 1, 2022.

On February 15, 2023, Conceria Pasubio S.p.A., acquired 100% of Innova S.r.l. and the consolidation took effect on March 1, 2023 (the "Innova Acquisition"). On March 28, 2023, Pasubio S.p.A. established the new company Pasubio South Africa, which was consolidated with an effective date of November 30, 2023.

During 2023, discussions with shareholder Leather S.p.A. ("Leather") and with the indirect controlling shareholder PAI Europe VII Master Topco S.a.r.l. SICAV – RAIF ("PAI") on behalf of its compartments PAI Europe VII Opportunities and Pasubio Co-Invest, PAI, took to the partial reimbursement of the so-called bond "Leather 2021-2030 Qualified Bonds". Consequently, Leather's board on June 22,2023 approved the reimbursement of €138,481,082.46 PAI Europe VII Opportunities and Pasubio Co-Invest sub-funds. Additionally, on the same date, Leather's board approved a capital increase of €138,481,082.46 through new "B1" class shares. On June 26, 2023, another meeting of Leather's board of directors approved the partial remission of Conceria Pasubio S.p.A.'s debt owed to Leather in relation to the shareholder loan that had been granted by Leather to the acquisition vehicle (Leather 2 S.p.A., merged into Pasubio in 2022). The remission granted the aimed improvement of the debt exposure of Pasubio, rebalancing Leather's NFP after the repayment of the bond. On June 29, 2023, PAI subscribed to the Leather's capital increase described above by offsetting the amount due by Leather as repayment of the bond.

The summary consolidated financial information below includes certain non-GAAP measures that we use to evaluate our economic and financial performance. These measures are not identified as accounting measures under Italian GAAP and therefore should not be considered a substitute for, or superior to, the equivalent measures calculated and presented in accordance with Italian GAAP or those calculated using financial measures that are prepared in accordance with Italian GAAP.

Summary of Results of Operations

€ million	12 month at December 31, 2023	12 month at December 31, 2022
Revenue	359.5	357.4
Total revenue and other income	*363.7*	*363.7*
Total operating costs	*(348.2)*	*(341.3)*
Operating profit / (loss) Adjusted	**15.5**	**22.4**
Impairment Loss	*(136.9)*	
Profit (Loss) before tax	*(158.1)*	*(11.2)*
Profit (Loss) for the period	**(161.3)**	**(15.4)**

Summary Consolidated Statement of Balance Sheet

€ million	As of December 31, 2023	As of December 31, 2022
Non-current Assets	401.7	550.0
Current Assets	155.9	172.2
Total Assets	**557.5**	**722.2**
Non-Current Liabilities	365.0	496.6
Current Liabilities	91.9	100.4
Total Liabilities	**456.9**	**597.0**
Total shareholders' equity	100.7	125.1
Total Liabilities and Shareholders' Equity	**557.5**	**722.2**

Summary Consolidated Cash Flow Statement

€ million	12 month at December 31, 2023	12 month at December 31, 2022
Cash flow from operating activities	41.2	31.6
Cash flow used in investing activities	(34.1)	(16.5)
Cash flow used in financing activities	(7.1)	(20.1)
Increase/(Decrease) cash and cash equivalents	(0.0)	(5.0)

Other Financial Information and As Adjusted Data

	€ million	12 months at December 31, 2023	12 months at December 31, 2022
(1)	Net Revenue	350.8	350.2
(2)	EBITDA	56.8	62.0
(2)	Adjusted EBITDA	63.5	63.7
(3)	Adjusted EBITDA Margin	18.1%	18.2%
(4)	Capital Expenditure	25.3	15.2
(5)	Cash Conversion	95.2%	96.2%
(6)	Working Capital	54.8	70.4
(7)	Adjusted free operating cash flow	53.1	41.4
(2)	Pro Forma Adjusted EBITDA	68.2	70.3
(8)	Pro Forma Adjusted EBITDA Margin	19.4%	20.1%
(9)	Net Financial Position (NFP)	342.5	348.1
	Ratio of NFP to Pro Forma Adjusted EBITDA	5.0x	5.0x
(10)	Operating profit / (loss) Adjusted	15.5	22.4

(1) We define net revenue as revenue excluding sales of unfinished leather and certain after sale discounts that we sometimes apply in case of disputes in connection with our products.

The following table reconciles revenue, presented under Italian GAAP, to net revenue for each of the periods indicated:

	€ million	12 months at December 31, 2023	12 months at December 31, 2022
	Revenue	**359.5**	**357.4**
(a)	Disputes (discounts on sales)	(2.0)	(2.2)
(b)	Sales of not finished leathers	12.7	14.2
(c)	Other Revenues	(2.3)	(4.7)
(d)	Late adjustments	0.0	(0.1)
(e)	Business Development	0.4	0.0
	Net revenue	**350.8**	**350.2**

(a) Represents commercial discounts on sales for which a customer has raised a quality complaint. When this happens, our customer service team analyzes the case and can decide to take back the leather as physical returns and issue a credit note or agree with the relevant customer a discount of the selling price and issue a credit note.

(b) Represents sales of the sub-product that we obtain from processing raw hides which are the split leather to reduce the thickness of the raw material. These products are then sold back to the supplier or to specific customers. These products are not classified in the net revenue because they are treated as a recovery of the purchase price of raw material and are not part of our core business.

(c) Represent the amounts received as Grants from Institution to incentivize industrial performance and also to sustain the Company following the increase of prices of utilities (gas and electricity).

(d) Represents differences between management account closing and statutory closing. Certain unaccrued invoices at management closing can accrue before the statutory account closing, which usually takes place a couple of months after management account closing.

(e) Represents differences between management account closing and statutory closing related to adjustments made to the managerial closing attributing to the ongoing implementation of the new businesses of Innova S.r.l. and Pasubio South Africa Ltd with negative EBITDA impact adjusted.

Net revenue is not a measure of net income, operating income, operating performance or liquidity presented in accordance with Italian GAAP. When assessing our operating performance, you should not consider this data in isolation or as a substitute for our net income, operating income or any other operating performance or liquidity measure calculated in accordance with Italian GAAP.

(2) We define EBITDA as profit (loss) for the period before financial income (expenses), income taxes, depreciation—tangible assets, amortization—intangible assets and impairment loss. We define Adjusted EBITDA as EBITDA adjusted for certain non-cash items, including net exchange rate gain (losses) and write-down of trade receivables, certain items we believe are non-recurring or exceptional in nature, including start-up costs, one-off / non-operating adjustments and the impact of COVID-19, and certain other adjustments not reflective of the ongoing performance of our business, including capital gain/loss and financial income/expenses (bank charges). We define Pro Forma Adjusted EBITDA as Adjusted EBITDA adjusted for (i) estimated purchasing synergies resulting from the Hewa Acquisition and (ii) the run rate effect of our cost improvement operational projects as if cost improvements resulting therefrom had full effect from January 1 of the period under analysis.

We believe Adjusted EBITDA and Pro Forma Adjusted EBITDA are useful metrics for investors to understand our results of operations and profitability because it permits investors to evaluate our recurring profitability from underlying operating activities. Additionally, we believe that Adjusted EBITDA and Pro Forma Adjusted EBITDA provide investors with a tool to compare the historical performance of our business across different periods as our adjustments to net profit from continuing operations and the exclusion of certain costs and expenses include items not considered by management to be attributable to the day-to-day operation of our business. We also use this measure internally to establish forecasts, budgets and operational goals to manage and monitor our business, as well as evaluating our underlying historical performance. Our presentation of Adjusted EBITDA and Pro Forma Adjusted EBITDA may be different from the presentation used by other companies and therefore comparability may be limited. Adjusted EBITDA and Pro Forma Adjusted EBITDA are Non-GAAP Measures and the terms Adjusted EBITDA and Pro Forma Adjusted EBITDA are not defined under Italian GAAP or any other generally accepted accounting principles. Consequently, the use of Adjusted EBITDA and Pro Forma Adjusted EBITDA has certain limitations. Adjusted EBITDA and Pro Forma Adjusted EBITDA are not measures of net income, operating income, operating performance or liquidity presented in accordance with Italian GAAP. When assessing our operating performance, you should not consider this data in isolation or as a substitute for our net income, operating income or any other operating performance or liquidity measure calculated in accordance with Italian GAAP. Adjusted EBITDA and Pro Forma Adjusted EBITDA as presented herein differ from Consolidated EBITDA as defined in the Indenture.

The following table reconciles Profit (Loss) for the period, presented under Italian GAAP, to EBITDA, EBITDA to Adjusted EBITDA for each of the periods indicated, and Adjusted EBITDA to Pro Forma Adjusted EBITDA for the twelve months ended December 31, 2022 and for twelve months ended December 31, 2023.

	€ thousand	12 months at December 31, 2023	12 months at December 31, 2022
	Profit (Loss) for the period	**(161.3)**	**(15.4)**
	Financial income (expenses)	36.5	34.0
	Income taxes	3.2	4.1
	Depreciation - tangible assets	10.6	9.4
	Amortization - intangible assets	31.0	29.8
	Impairment Loss	136.9	
	EBITDA	**56.8**	**62.0**
	Net exchange rate gain (losses)	0.3	(0.3)
(a)	Non-recurring adjustments	6.0	1.5
(b)	Other adjustments	0.4	0.5
	Adjusted EBITDA	**63.5**	**63.7**
(c)	Hewa Acquisition adjustments	1.1	4.0
(d)	Run Rate Saving OPS	3.5	2.5
	Pro Forma Adjusted EBITDA	**68.2**	**70.3**

(a) For the year ended December 31, 2022, non-recurring adjustments consisted of (A) €0.8 million of one off adjustment related to different inventory evaluation of Hewa; (B) €0.3 million related to Hewa integration process; (C) €0.2 million related to extraordinary personnel costs; (D) €0.1 million related to extraordinary bad debt provision in Arzignanese; (E) €72 thousand related to consultancies connected to certain M&A projects; (F) €31 thousand related to one-off consulting expenses; (F) €13 thousand of one-off COVID-19 related adjustments related to healthcare measures put in place (i.e. personal protective equipment, sanitizing gel, etc.); (G) €2 thousand related to the rearrangement of the new plant in Arzignano, viale Vicenza.

For the year ended December 31, 2023, non-recurring adjustments consisted of (A) €0.9 million of one off adjustment related to extraordinary inventory devaluation; (B) €0.9 million related to Hewa integration process; (C) €1.2 million related to one-off consulting expenses; (D) €1.0 million related to the implementation at GD US, GDI Mexico and Pasubio South Africa plants for the set up of a new project with an automotive customer; (E) €0.6 million related to extraordinary scraps due to non-conformity of tannage process which leads to extraordinary bad yield if compared to historical series; (F) €0.6 million related to extraordinary leaving incentives; (G) €0.6 million related to the business development of the two new plants Innova S.r.l. and Pasubio South Africa; (H) € 0.1 million related to consultancies connected to certain M&A projects and (I) €0.2 million related to extraordinary bad debt provision in Arzignanese S.r.l. and extraordinary provision for legal case in Conceria Pasubio S.p.A..

(b) For the year ended December 31, 2022, other adjustments consisted of (i) € 0.3 million of capital gain/loss; (ii) €0.1 million of bank charges and (iii) €0.1 million of late adjustments between management closing and statutory closing.

For the year ended December 31, 2023, other adjustments consisted of (i) € 0.2 million of capital gain/loss; (ii) € 0.2 million of bank charges and (iii) € -0.1 million of late adjustments between management closing and statutory closing.

(c) Represents €1.1 million and €4.0 million (For the year ended December 31, 2023 and 2022 respectively) respect of estimated purchasing synergies resulting from having Hewa (i) purchase raw materials under our arrangements with our suppliers, which provide for better commercial terms, compared to Hewa's existing supply contracts and (ii) Perform at our efficiency level in the use of raw materials related to hides. These savings are expected to come into effect contemporaneously with the integration of Hewa into our business. The presentation of Pro Forma Adjusted EBITDA is for informational purposes only. It is our objective to reach the levels of projected synergies reflected above, no assurance can be given that such levels will be achieved in the time frame indicated or at all or that additional unanticipated costs will not arise. Our synergy estimates are based on a number of assumptions made in reliance on the information available to us and our judgments based on such information. The assumptions used in estimating synergies are inherently uncertain and are subject to significant business, economic and competitive risks and uncertainties that could cause our actual results to differ materially from those contained in these benefit estimates.

(d) Represents the run rate effect of our operational cost improvement projects as if we benefited from the full cost savings from January 1, 2022 and January 1, 2023. Although it is our objective to reach such cost savings, no assurance can be given that they will be achieved in the predicted time frame or at all or that additional unanticipated costs will not arise. Our cost savings estimates are based on a number of assumptions made in reliance on information available to us at the time such estimates were made and on our judgment. Assumptions are inherently uncertain and are subject to significant business, economic and competitive risks and uncertainties that could cause our actual results to differ materially from the estimates.

(3) Adjusted EBITDA Margin is defined as Adjusted EBITDA *divided by* net revenue, expressed as a percentage. Adjusted EBITDA Margin is not a measure of net income, operating income, operating performance or liquidity presented in accordance with Italian GAAP. When assessing our operating performance, you should not consider this data in isolation or as a substitute for our net income, operating income or any other operating performance or liquidity measure calculated in accordance with Italian GAAP.

(4) We define capital expenditure as payments for intangible assets *plus* payments for tangible assets. Capital expenditure excludes the consideration paid by us for the acquisition of other businesses and includes the amount of the tangible assets acquired through the financial leasing contracts. Capital expenditure is not a measure recognized by Italian GAAP. For further information see "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital expenditure*." The following table sets forth a calculation of capital expenditure to payments for intangible assets and payments for tangible assets, our most directly comparable measures under Italian GAAP, as at the dates indicated:

€ million	12 month at December 31, 2023	12 month at December 31, 2022
Payments for tangible assets	20.5	12.0
Proceeds from sale of tangible assets	(0.2)	(0.2)
Payments for intangible assets	5.0	3.4
Capital Expenditure	**25.3**	**15.2**

(5) We define cash conversion as Adjusted EBITDA *less* maintenance capital expenditure *divided by* Adjusted EBITDA, expressed as a percentage. Cash conversion is not a measure of net income, operating income, operating performance or liquidity presented in accordance with Italian GAAP. When assessing our operating performance, you should not consider this data in isolation or as a substitute for our net income, operating income or any other operating performance or liquidity measure calculated in accordance with Italian GAAP.

(6) We define Working Capital as inventories, trade receivables, other receivables and prepaid expenses and accrued income *less* trade payables, social security payables, current tax payables and accrued expenses.

We have adjusted the trade payables for the amount related to the fees connected to the issuing of the bond and the Acquisition to give a better reading of the Working Capital concerning the operative business.

The following table sets forth a reconciliation of Working Capital to current assets and current liabilities, our most directly comparable measures under Italian GAAP, as at the dates indicated:

€ million	As of December 31, 2023	As of December 31, 2022
Inventories	78.3	93.4
Trade receivables	40.6	40.7
Prepaid expenses and accrued income	1.8	2.2
Tax receivables	3.7	3.2
Other receivables	7.5	8.5
Calculated current assets	*132.0*	*148.1*
Trade payables	57.7	57.6
Tax payables	1.5	2.2
Social security payables	3.1	3.2
Accrued expenses	5.3	6.1
Other payables	8.9	8.6
Calculated current liabilities	*76.4*	*77.6*
Working Capital	**55.5**	**70.4**

Working Capital is not a measure of net income, operating income, operating performance or liquidity presented in accordance with Italian GAAP. When assessing our operating performance, you should not consider this data in isolation or as a substitute for our net income, operating income or any other operating performance or liquidity measure calculated in accordance with Italian GAAP.

(7) We define free operating cash flow as Adjusted EBITDA *less* capital expenditures and change in Working Capital.

The following table shows a reconciliation of free operating cash flow to Adjusted EBITDA for the periods presented:

€ million	12 month at December 31, 2023	12 month at December 31, 2022
Adjusted EBITDA	**63.5**	**63.7**
Capital Expenditures	25.3	15.2
Change in Working Capital	(14.9)	7.1
Adjusted free operating cash flow	**53.1**	**41.4**

(a) For a reconciliation of Adjusted EBITDA to net profit from continuing operations, our most directly comparable measure under Italian GAAP, for each of the periods indicated, please see footnote (2) above.

Adjusted free operating cash flow is not a measure of net income, operating income, operating performance or liquidity presented in accordance with Italian GAAP. When assessing our operating performance, you should not consider this data in isolation or as a substitute for our net income, operating income or any other operating performance or liquidity measure calculated in accordance with Italian GAAP.

(8) Pro Forma Adjusted EBITDA Margin is defined as as Pro Forma Adjusted EBITDA *divided by* Pro Forma net revenue, expressed as a percentage. Pro Forma Adjusted EBITDA Margin is not a measure of net income, operating income, operating performance or liquidity presented in accordance with Italian GAAP. When assessing our operating performance, you should not consider this data in isolation or as a substitute for our net income, operating income or any other operating performance or liquidity measure calculated in accordance with Italian GAAP.

(9) Net financial position represents our consolidated total indebtedness, consisting of €340.0 million of proceeds of the Notes with related accrued interest, €10.2 million of drawn Super Senior Revolving Credit Facility with related accrued interest and €20.7

million of other existing debt of the Group such as leasing debt and other local lines not secured, less € 22.9 million of cash and cash equivalents as of December 31, 2022.

Net financial position represents our consolidated total indebtedness, consisting of €340.0 million of proceeds of the Notes with related accrued interest, €7.0 million of drawn Super Senior Revolving Credit Facility with related accrued interest and €18.0 million of other existing debt of the Group such as leasing debt and other local lines not secured, less € 22.9 million of cash and cash equivalents as of December 31, 2023.

(10) We define Operating profit / (loss) Adjusted as the Operating profit before the impairment loss of our goodwill due to the impairment test conducted as of December 31, 2023.

The following table shows a reconciliation of the Operating profit / (loss) Reported:

€ million	12 months at December 31, 2023	12 months at December 31, 2022
Operating profit / (loss) Adjusted	15.5	22.4
Impairment Loss	(136.9)	
Operating profit / (loss) Reported	(121.3)	22.4

Certain Key Performance Measures

The following table includes a breakdown of certain selected key performance measures for the periods indicated. These key performance measures are operating measures that have not been audited or reviewed by the auditors of the Group.

	€ million	12 months at December 31, 2023	12 months at December 31, 2022
	Volumes sold (in thousand gross square meters)	9,050.0	8,844.6
(a)	First margin	238.9	232.5
(b)	Contribution margin (in %)	26%	26% [1]

(a) First margin represents net revenue *less* cost of raw material and changes in inventory attributable to purchases of raw hides.

(b) Contribution margin represents the ratio of our net revenue *less* certain material consumption costs, chemicals and other auxiliaries costs, direct labor cost, third party processing costs, other industrial costs, claims & disputes and other sales costs *divided by* our net revenue, expressed as a percentage. All these costs are directly linked to the level of net revenue.

[1] Note that the perimeter for the 2023 Closing has been adjusted as the same of 2022 for comparative purpose (without Innova and South Africa).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The discussion and analysis below provides information that we believe is relevant to an assessment and understanding of our historical consolidated financial position and results of operations.

This section includes forward-looking statements, including those concerning future sales, costs, capital expenditures, acquisitions and financial condition. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause our actual results to differ materially from those expressed or implied by such forward-looking statements. Results of operations for prior years are not necessarily indicative of the results to be expected for the full year or any future period.

Our financial statements have been prepared in accordance with Italian GAAP. We have not prepared a qualitative or quantitative reconciliation of our financial statements between Italian GAAP and IFRS. You should consult your own professional advisers for an understanding of the differences between Italian GAAP and IFRS and how those differences might affect the financial information included in this document.

The following discussion of our results of operations also makes reference to certain non-GAAP measures. Prospective investors should bear in mind that these non-GAAP measures are not financial measures defined in accordance with Italian GAAP, may not be comparable to other similarly titled measures of other companies, have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of our operating results as reported under Italian GAAP.

Overview

We are one of the leading suppliers of premium leather for the automotive industry producing high-quality finished leather for seats, dashboards and steering wheels, and other upholstering. We focus on all segments of the premium and luxury automotive market, and on high-quality leather (full-grain and nappa) in particular, combining artisanal excellence with mastery of industrial processes. We sell our products in Europe, our core market, and North America, Asia and Africa. According to an independent third-party consultant, we held a 10.9% market share for high-quality automotive leather globally in 2019, prior to giving effect to the Hewa Acquisition. For the year ended December 31 2023, we generated revenue of €359.5 million, net revenue of €350.8 million, Adjusted EBITDA of €63.5 million and Pro Forma Adjusted EBITDA of €68.2 million.

Key Factors Affecting Results of Operations and Financial Condition

Our results of operations are affected by a combination of factors, including factors which are beyond our control. We believe that our results of operations, and particularly the results of operations during the periods under review, have been primarily affected by the following factors.

Price of materials

A significant part of our cost base consists of purchases of materials which are variable in nature. The primary materials used in our production facilities are mainly raw hides and chemicals. For the years ended December 31, 2022, and 2023, the purchase of goods and changes in inventory has represented 52.4% and 51.8%, respectively, of our revenue. Materials and other supplies are valued at the lower of historical purchase price and net realizable value. While prices of materials affect our revenue and costs, historically, our profit margins have not been significantly affected by changes in prices of materials. We have not experienced any significant shortages of materials. We are generally able to pass through increases in the cost of raw materials to our customers. We have been able to recover the majority of inflation-related price-increases by negotiating price increases with our main customers. In situations where we renegotiate terms with OEMs in order to pass on cost increases of materials, we bear the increased costs until negotiations are finalized, which generally takes between three and six months.

Therefore during 2023, such as during 2022, we experienced temporary cost increases due to the inflation related to the raw material market including hides and chemicals as well as utilities and labor costs.

Global automotive market and vehicle cycles

Throughout the recently concluded fiscal period, the European automotive market, our Group's primary focus, has shown signs of recovery amidst ongoing challenges. Factors such as automotive incentive measures, supply chain improvements, and the resolution of geopolitical tensions have shifted the market from supply-driven to demand-driven. However, recovery prospects remain cautious, still below pre-pandemic levels. The economic context remains challenging, with the European economy experiencing a slight recession at the end of 2023, driven by tight labor market conditions, declining inflation, and interest rate policies potentially reaching their peak, with forecasts of cuts by mid-2024.

In 2023, European automotive production performed positively, led by notable increases in Germany, the UK, Spain, and France. Nonetheless, a production volume decline is anticipated in 2024, with stabilization forecasted from 2025 onwards. In response to these market dynamics, the Group is diversifying into the North American market through strategic initiatives and the acquisition of a new facility in Mexico, aimed at serving automotive clientele across the American continent.

Despite our core leather product focus, our strategic vision remains focused on the automotive sector and expanding our product portfolio. In 2023, the Group acquired Innova S.r.l. (a newly established entity following a business unit transfer), where the Group is developing and industrializing alternative materials (such as PU) for the automotive market to complement its product offering for car interiors.

In conclusion, the European automotive market still faces economic uncertainties and long-term structural challenges, such as the transition to electrification and environmental legislation (particularly European policies on deforestation), which will influence its future trajectory.

Growth of interest rate

The high level of inflation reached in 2022 prompted a growth of interest rates. We believe that the new level of interest rates will continue. As such, we subscribed two hedging instruments to partially cover our exposure from higher interest rates.

During 2023, inflation gradually decreased in Eurozone, partly due to the increase in interest rates in the first half of the year, which then stabilized in the second half.

The effect on our Consolidated Financial Statement is mainly linked on our Senior Secured Floating Rate Notes, which bear floating rate interest based on the three-month EURIBOR rate.

Seasonality

Our business is seasonal. Our working capital requirements typically increase during the first and third quarters of the year and reduce towards the end of the year. OEMs typically slow down vehicle production during certain portions of the year. For instance, our European customers slow down vehicle production in August and during the holiday season in December during which they also often conduct internal maintenance and adjustments to inventory. Further, there are a fewer number of working days at the end of the year as opposed to the beginning of a year and this results in a reduction in vehicle production towards the end of such year.

Pasubio North America expansion

In the early months of 2024, the Company established a new legal entity in Mexico, precisely in Leon which the city host already an industrial park with several active tanneries. The Group has decided to strengthen its presence in the country (already present with the company GD Servicio International del Norte) in order to develop an industrial plant for leather production in North America. This entity will become operational between the end of 2024 and the beginning of 2025, coinciding with the start of the new program with a leading German OEM for the supply of full hides and cut parts for a mid-size SUV assembled in South Africa and North America.

European Deforestation Regulation

In the course of 2023, Regulation 2023/1115 (published in the Official Journal of the European Union on June 9, 2023) was issued concerning the placing on the EU market and the export from the EU of certain raw materials and certain associated products related to deforestation and forest degradation (the "Deforestation Regulation").

The Deforestation Regulation aims to ensure that products (including leather) derived from certain raw materials placed on the EU market, or exported from the EU, (i) have not caused deforestation or forest degradation during their production, (ii) comply with the legislation of the country of production, and (iii) are subject to a due diligence declaration. The regulation entered into force on June 29, 2023, but the most relevant provisions, such as those related to obligations on operators and traders, will apply from December 30, 2024.

The company, to the extent feasible, has been acting for some time to try to comply as much as possible with such regulations, also interfacing with national and European industry associations in order to obtain greater clarity on the application of rules that require complete traceability of raw materials through geolocation systems.

Additionally, Pasubio will participate in the first test on the information system set up by the European Community on deforestation.

Key Factors Affecting the Comparability of Our Results of Operations

Description of Key Income Statement Items

A summary description of certain key income statement line items follows.

Revenue

Revenue means revenue from sales of finished products.

Other revenue and income

Other revenue and income are mainly related to government incentives, to ancillary sales services and to releases of provisions related to litigation with former employees.

Purchase of goods and changes in inventory

Purchase of goods and changes in inventory mainly consist of purchases of raw materials, supplies and consumables (e.g., raw hides and chemicals) used in the production of finished products and the related change in inventories.

Cost of services

Cost of services comprises (i) outsourced processing costs; (ii) cleaning and ecology costs related to expenses incurred in the production cycle; (iii) domestic and international transportation costs on purchases and sales; and (iv) maintenance costs required to maintain machinery.

Personnel costs

Personnel costs refer to salaries and wages, social security expenses, post-employment benefits, restructuring and reorganization personnel costs and other personnel costs. Salaries and wages include personnel costs related to holidays and leave pays, indemnities, overtime and bonuses.

Other operating costs

Other operating costs include residual items not included in other captions related to operative costs, such as capital losses from disposals of assets, taxes and non-income taxes and other operating charges and expenses.

Depreciation—tangible assets

Depreciation includes depreciation of property, plant and equipment.

Amortization—intangible assets

Amortization includes amortization of goodwill and intangible assets.

Impairment Loss

Impairment loss refers to the decrease in the value of an asset when its carrying amount exceeds its recoverable amount.

Financial income (expenses)

Financial income (expenses) includes interest income and expenses.

Income taxes

Income taxes consist of current taxes and deferred taxes. Income taxes for any period are estimated based the profit (loss) before tax for the period as well as applicable laws and regulations, and represent management's best estimate of the expected tax charge due for the period.

Results of Operations

Year Ended December 31, 2023 compared with Year Ended December 31, 2022

€ thousand	12 month at December 31, 2023	12 month at December 31, 2022	
Revenue	359,479	357,354	0.6%
Other revenue and income	4,230	6,325	-33.1%
Total revenue and other income	**363,709**	**363,679**	**0.0%**
Purchase of goods and changes in inventory	(186,081)	(187,305)	-0.7%
Cost of services	(69,729)	(61,902)	12.6%
Use of third party assets	(1,400)	(1,108)	26.4%
Personnel costs	(50,567)	(51,116)	-1.1%
Other operating costs	(1,239)	(1,351)	-8.3%
Capitalization in fixed assets for internal work	2,682	776	245.4%
Depreciation - tangible assets	(10,557)	(9,445)	11.8%
Amortization - intangible assets	(31,042)	(29,842)	4.0%
Write-down of trade receivables	(238)	(2)	14100.3%
Total operating costs	**(348,170)**	**(341,295)**	**2.0%**
Operating profit / (loss) Adjusted	**15,539**	**22,384**	**-30.6%**
Impairment Loss	(136,854)	-	n.a.
Operating profit / (loss) Reported	**(121,315)**	**22,384**	**-642.0%**
Financial income (expenses)	(36,493)	(33,974)	7.4%
Net exchange rate gain (losses)	(310)	345	-189.8%
Profit (Loss) before tax	**(158,118)**	**(11,245)**	**1306.1%**
Income taxes	(3,169)	(4,130)	-23.3%
Profit (Loss) for the year	**(161,287)**	**(15,375)**	**949.0%**

Revenue

Revenue for the year ended December 31, 2023 increased by €2.1 million, or 0.6%, to €359.5 million, from €357.4 million for the year ended December 31, 2022, primarily due to higher volume compared to the prior year.

Purchase of goods and changes in inventory

Purchase of goods and changes in inventory for the year ended December 31, 2023 decreased by €1.2 million, or 0.7%, to €186.1 million, from €187.3 million for the year ended December 31, 2022.

Cost of services

Cost of services for the year ended December 31, 2023 increased by €7.8 million, or 12.6%, to €69.7 million, from €61.9 million for the year ended December 31, 2022, primarily due to the increase in utility costs as a result of the higher inflation if compared to the same period of the previous year and due to extraordinary consultancies.

Personnel costs

Personnel costs for the year ended December 31, 2023 decreased by €0.6 million, or 1.1%, to €50.6 million, from €51.1 million for the year ended December 31, 2022.

Other operating costs

Other operating costs for the year ended December 31, 2023 decreased by €0.1 million, or 8.3%, to €1.2 million, from €1.4 million for the year ended December 31, 2022.

Capitalization in fixed assets for internal work

Capitalization in fixed assets for internal work for the year ended December 31, 2023 increased by €1.9 million, or 245.4%, to €2.7 million, from €0.8 million for the year ended December 31, 2022 thanks to the improvement of time tracking processes for internal projects related to operational enhancement, which will yield positive results in the coming years.

Depreciation—tangible assets

Depreciation—tangible assets for the year ended December 31, 2023 increased by €1.1 million, or 11.8%, to €10.6 million, from €9.4 million for the year ended December 31, 2022.

Amortization—intangible assets

Amortization—intangible assets for the year ended December 31, 2023 increased by €1.2 million, or 4.0%, to €31.0 million, from €29.8 million for the year ended December 31, 2022, primarily due to the impact of new investments.

Impairment Loss

Impairment Loss for the year ended December 31, 2023 is equal to €136.9 million and represents the outcome of the impairment test, which resulted in the recognition of enduring impairment losses with reference to Goodwill, please see "*Consolidated Financial Statement*" for further details.

Financial expenses

Financial expenses for the year ended December 31, 2023 increased by €2.5 million, or 7.4%, to €36.5 million, from €34.0 million for the year ended December 31, 2022, mainly due to the increase of interest rate occurred during the year, partially offset by the conversion of the Shareholder Loan happened in June, 2023.

Income taxes

Income taxes for the year ended December 31, 2023 decreased by €0.3 million, or 6.8%, to negative €3.8 million, from negative €4.1 million for the year ended December 31, 2022.

Liquidity and Capital Resources

Overview

Historically, the principal sources of our liquidity have been (i) cash flow from operating activities, (ii) bank credit lines, (iii) existing bank loans and (iv) revolving credit borrowings. In addition, we engage in the sale of the receivables related to certain specific customers on the basis of uncommitted framework non-recourse factoring agreements in order to support our working capital and liquidity needs. To ensure access to credit for our suppliers and given the importance of the supply chain to the leather industry, in January 2021, we entered into a reverse factoring agreement with certain suppliers. Pursuant to this reverse factoring agreement, the relevant suppliers have the discretionary option to sell receivables we owe to them to an independent third-party finance company and to receive the amount owed to them before the due date. In exchange for this arrangement, some of these suppliers have granted us longer due dates for payments. Payables related to our reverse factoring program are included in the line item "trade payables" in our financial statements. This reverse factoring program has a volume cap of €18.0 million.

Historically, our principal uses of cash have been (i) funding capital expenditures, (ii) providing working capital, (iii) meet debt service requirements and (iv) fund acquisitions. We believe that the current cash flow from operating activities and existing bank financing will provide us with sufficient liquidity to meet current working capital needs.

We or an affiliate may, from time to time, depending on market conditions and other factors, repurchase or acquire an interest in our outstanding indebtedness, whether or not such indebtedness trades above or below its face amount, for cash and/or in exchange for other securities or other consideration, in each case in open market purchases and/or privately negotiated transactions or otherwise.

Cash Flows

The table below sets forth a summary of our consolidated statements of cash flows as of and for the periods indicated:

€ million	12 month at December 31, 2023	12 month at December 31, 2022
Cash flow from operating activities	41.2	31.6
Cash flow used in investing activities	(34.1)	(16.5)
Cash flow used in financing activities	(7.1)	(20.1)
Increase/(Decrease) cash and cash equivalents	(0.0)	(5.0)

Cash flow from operating activities

Cash flow from operating activities amounted to €41.2 million for the twelve months ended December 31, 2023, an increase of €9.6 million compared to the twelve months ended December 31, 2022, primarily driven by an increase in changes in working capital of €17.7 million primarily as a result of decrease in working capital mainly driven by a rationalization of the inventory and faster collection days which partially offset the effect of the increasing of interest rate.

Cash flow used in investing activities

Cash flow used in investing activities amounted to €34.1 million for the twelve months ended December 31, 2023, an increase of €17.6 million compared to the twelve months ended December 31, 2022, primarily driven by €3.7 million incurred in connection with the Pasubio Acquisition and €4.9 million incurred in connection with Innova Acquisition during the year 2023 and due to the peak of investment in tangible capex mainly related to continuous improvement.

Cash flow used in financing activities

Cash flow used in financing activities amounted to €7.4 million for the year ended December 31, 2023, a decrease of €12.7 million compared to the year ended December 31, 2022, primarily driven by (i) the repayment of € 3.0 million of the RCF (ii) the Group's ability to optimize the use of short-term loans by favoring the new cash pooling system, which centralizes treasury under the parent company and reduces costs associated with interest rates.

Working Capital

Working Capital consists of inventories, trade receivables, other receivables and prepaid expenses and accrued income *less* trade payables, social security payables, current tax payables and accrued expenses. The amount of the trade payables has been adjusted of the financial debt related the issuing of the bond to give a better exposition of the trade payables strictly connected to the business. Our finished product inventories generally have a short shelf-life and our raw materials and work in progress inventories are primarily affected by production management, invoicing and inventory management. The change in accounts payables and receivables is primarily linked to varying terms and the timing of payment and the ability to recover payments from customers.

The following table summarizes our change in Working Capital as of the dates and for the periods indicated:

€ million	As of December 31, 2023	As of December 31, 2022
Inventories	78.3	93.4
Trade receivables	40.6	40.7
Prepaid expenses and accrued income	1.8	2.2
Tax receivables	3.7	3.2
Other receivables	7.5	8.5
Calculated current assets	*132.0*	*148.1*
Trade payables	57.7	57.6
Tax payables	1.5	2.2
Social security payables	3.1	3.2
Accrued expenses	5.3	6.1
Other payables	8.9	8.6
Calculated current liabilities	*76.4*	*77.6*
Working Capital	**55.5**	**70.4**
Change in Working Capital	**-14.9**	

* Consists of the change in Working Capital compared to the prior period.

Working Capital decreased by €14.9 million, or 21.2%, from €70.4 million as of December 31, 2022 to €55.5 million as of December 31, 2023. This decrease was primarily due to decrease in inventories of €15.1.

Capital expenditure

To support our business strategy and development plans and to further expand our business, we regularly incur capital expenditure.

The table below sets forth our capital expenditure based on cash flows for the periods indicated:

€ million	12 month at December 31, 2023	12 month at December 31, 2022
Payments for tangible assets	20.5	12.0
Proceeds from sale of tangible assets	(0.2)	(0.2)
Payments for intangible assets	5.0	3.4
Capital Expenditure	**25.3**	**15.2**
Of which: maintenance capital expenditure	3.0	2.4
Of which: expansion capital expenditure	22.3	12.8

For the year ended December 31, 2023, capital expenditures were €25.3 million, compared to €15.2 million for the year ended December 31, 2022.

Capital expenditures amounted to 7.2% of net revenue for the year ended December 31, 2023 and amounted to 4.3% of net revenue for the year ended December 31, 2022.

Contractual Obligations

Our contractual obligations and financial commitments owed to third parties (excluding any interest payments under such contractual obligations and commitments), as of December 31, 2023 primarily consist of the €340.0 million of Notes, which will mature on September 30, 2028 and of the €11.3 million of Shareholders' Loan, which will mature on September 30, 2029. Other existing debt of the Group as of December 31, 2023, comprises € 7.0 million related to a Revolving Credit Facility put in place in connection to the Acquisition, € 11.3 million of Pasubio credit lines (such as import/export lines) or other cash credits, €3.6 million of lease liabilities, €0.5 million of a loan entered into with Simest and €2.6 million of local credit facilities entered into by Hewa.

Contingent Liabilities and Off Balance Sheet Arrangements

Contingent Liabilities

As of the date of this report, we had no contingent liabilities outstanding.

Off-Balance Sheet Arrangements

As of the date of this report, we had no material off balance sheet arrangements.

Risk Factors

Other than as disclosed elsewhere in this report, risks to which we are subject have not materially changed from previous disclosure.

Management

There have been no material changes to our management from previous disclosures.

Corporate Structure

On October 14, 2022, a deed of merger was signed between Leather 2 and Conceria Pasubio, resulting in the reverse merger by incorporation (the "Merger") of Leather 2 into the Company. As a result of the Merger, the Company assumed all rights and obligations previously held by Leather 2. On October 17, 2022, the deed of merger was registered with the competent Companies' Register. From that date, the Merger became effective, thus concluding the merger process that began in early February of this year.

During the first quarter of 2023, the acquisition of Innova Srl, a production plant located in the Albaredo d'Adige (VR) area, was completed. With the support of the internal Research and Development team, the company will proceed with the development of alternative materials to leather: a synthetic material (PU) and a product line based on new bio-chemicals and innovative ecological supports, aiming to offer more sustainable and cutting-edge materials. The company is progressing according to the industrial plan for product development and is engaging with initial clients for project assignments in the automotive sector.

To meet the requirements of a new international project with a major European automotive company, acquired in 2022, the company established a Legal Entity in South Africa. This decision represents the first step in establishing the Group's presence in the country. This entity will become operational during 2024, coinciding with the launch of the new program.

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INDEPENDENT AUDITOR'S REPORT
ON THE CONSOLIDATED FINANCIAL STATEMENTS AS AT DECEMBER 31, 2023

To the Board of Directors of
Conceria Pasubio S.p.A.

Opinion

We have audited the accompanying consolidated financial statements of Conceria Pasubio S.p.A. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as at December 31, 2023, the consolidated statement of income, the consolidated statement of changes of shareholders' equity and the consolidated statement of cash flows for the period then ended and the explanatory notes.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2023, and of its consolidated financial performance and its consolidated cash flows for the period then ended in accordance with the Italian GAAP.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Conceria Pasubio S.p.A. (the "Company") in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

This audit report is not issued pursuant to the law, because the Company has prepared the consolidated financial statements on a voluntary basis adopting the exemption to the preparation of the statutory consolidated financial statements provided by the Italian law.

Responsibilities of the Directors and the Board of Statutory Auditors for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with the Italian GAAP, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors;

- conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation;

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

DELOITTE & TOUCHE S.p.A.

Filippo Fabris
Partner

Padua, Italy
April 30, 2024

PASUBIO GROUP

Consolidated Financial Statements
as of and for the year ended
December 31, 2023

CONSOLIDATED BALANCE SHEET

For the year ended December 31, 2023

€ thousand	Notes	As of December 31, 2023	As of December 31, 2022
Goodwill	7	301,298	461,552
Intangible assets	8	23,446	25,230
Property, plant and equipment	9	74,373	58,326
Investments in associated and other companies	10	106	106
Other assets	11	2,444	4,788
Non-current Assets		**401,667**	**550,001**
Inventories	12	78,295	93,390
Trade receivables	13	40,641	40,745
Tax receivables	14	3,706	3,224
Deferred tax assets	15	1,026	1,163
Other receivables	16	7,489	8,499
Prepaid expenses and accrued income	17	1,821	2,205
Cash at bank and on hand	18	22,879	22,928
Total current Assets		**155,857**	**172,154**
Total Assets		**557,524**	**722,155**
Shareholders' equity			
Share capital		(6,800)	(6,800)
Reserve		(271,061)	(133,474)
Currency Translation Reserves		(240)	(211)
Retained earnings		16,164	(12)
Profit/(loss) for the year		161,287	15,375
Equity attributable to the owners of the parent		**(100,650)**	**(125,122)**
Shareholders' equity	19	**(100,650)**	**(125,122)**
Deferred tax liabilities	20	(6,559)	(6,570)
Provisions for employee severance indemnities	21	(1,680)	(1,673)
Provision for risks and charges	22	(640)	(686)
Bank Loan	25	(8,844)	(11,604)
Notes	24	(329,801)	(328,124)
Shareholders' loan	23	(14,034)	(144,751)
Other financial liabilities	26	(3,432)	(3,226)
Non-Current Liabilities		**(364,990)**	**(496,634)**
Bank Loan	25	(11,834)	(14,923)
Notes	24	(60)	(63)
Other financial liabilities	26	(3,542)	(4,106)
Trade payables	27	(57,740)	(61,300)
Tax payables	28	(1,463)	(2,158)
Social security payables	29	(3,054)	(3,165)
Other payables	30	(8,881)	(8,553)
Accrued expenses	31	(5,309)	(6,131)
Current Liabilities		**(91,885)**	**(100,399)**
Total Liabilities and Shareholders' equity		**(557,524)**	**(722,155)**

CONSOLIDATED INCOME STATEMENT

For the year ended December 31, 2023

€ thousand	Notes	12 month at December 31, 2023	12 month at December 31, 2022
Revenue		359,479	357,354
Other revenue and income		4,230	6,325
Total revenue and other income	32	**363,709**	**363,679**
Purchase of goods and changes in inventory	33	(186,081)	(187,305)
Cost of services	35	(69,729)	(61,902)
Use of third party assets	34	(1,400)	(1,108)
Personnel costs	36	(50,567)	(51,116)
Other operating costs	37	(1,239)	(1,351)
Capitalization in fixed assets for internal work	38	2,682	776
Depreciation - tangible assets	39	(10,557)	(9,445)
Amortization - intangible assets	39	(31,042)	(29,842)
Impairment Loss	39	(136,854)	-
Write-down of trade receivables	40	(238)	(2)
Total operating costs		**(485,024)**	**(341,295)**
Operating profit / (loss)		**(121,315)**	**22,384**
Financial income (expenses)	41	(36,493)	(33,974)
Net exchange rate gain (losses)	41	(310)	345
Profit (Loss) before tax		**(158,118)**	**(11,245)**
Income taxes	42	(3,169)	(4,130)
Profit (Loss) for the year		**(161,287)**	**(15,375)**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2023

€ thousands	Share capital	Legal Reserve	Share premium reserve	Revaluation Reserve	Hedging Reserve	Shareholders' Fund	Consolidation Reserve	Translation Reserve	Extraordinary Reserve	Retained earnings/losses	Fiscal year profit/loss	Total Group shareholders' equity
Balance as of December 31, 2022	**6,800**	**1,447**	**60,876**	**10,432**	**2,884**	**-**	**487**	**159**	**57,424**	**(12)**	**(15,375)**	**125,122**
Conversion SHL to Equity						138,481						**138,481**
Cash flow hedge reserve					(1,752)							**(1,752)**
Other movements								81	2,401	(17,771)	15,375	**86**
Result for the period ended December 31, 2023											(161,287)	**(161,287)**
Balance as of December 31, 2023	**6,800**	**1,447**	**60,876**	**10,432**	**1,132**	**138,481**	**487**	**240**	**59,825**	**(17,783)**	**(161,287)**	**100,650**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2023

€ thousands	12 month at December 31, 2023	12 month at December 31, 2022
Cash flow from operating activities		
Profit (Loss) for the year	**(161,287)**	**(15,375)**
Income Taxes	3,169	4,130
Net financial expenses	36,493	33,974
(Capital gains) Capital losses deriving from disposal assets	(57)	(141)
1. Profit (loss) for the year before income taxes, interest, dividends and capital gains / losses on disposal	**(121,683)**	**22,588**
Non cash adjustments		
Depreciation and Amortization	41,599	39,287
Impairment for lasting value losses	136,854	-
Non-monetary adjustments that have not had a counterpart in working capital	4	142
Provisions (Uses) for contingencies	1,372	-
Total non-monetary adjustments without effects in working capital	**179,829**	**39,429**
2. Cash flow from operating activities before changes in net working capital	**58,146**	**62,017**
Changes in Net Working Capital		
Decrease (Increase) of inventories	15,095	377
Decrease (Increase) of trade receivables	104	(14,347)
(Decrease) Increase in trade payables	730	2,146
Decrease (Increase) in accrued income and prepaid expenses	82	(488)
(Decrease) Increase in accrued expenses and deferred income	(2,323)	3,685
Other working capital items	1,163	1,923
Total changes in working capital	**14,852**	**(6,705)**
3. Cash flow from operating activities after changes in working capital	**72,998**	**55,312**
Other Adjustments		
(Income tax paid)	(4,023)	(4,648)
(Interests paid)	(26,227)	(19,109)
(Use of provisions)	(1,561)	-
Total other adjustments	**(31,812)**	**(23,757)**
Cash flow from operating activities (A)	**41,186**	**31,555**
Cash flow from investing activities		
(Payments for tangible assets)	(20,540)	(9,734)
Proceeds from sale of tangible assets	188	165
(Payments for intangible assets)	(4,982)	(3,383)
(Payments for financial fixed assets)	(194)	(237)
Net cash used in acquisition of Innova	(4,941)	-
Net cash flow for the acquisition of Conceria Pasubio Group	(3,660)	(3,283)
Cash flow from investing activities (B)	**(34,129)**	**(16,473)**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended December 31, 2023

€ thousands	12 month at December 31, 2023	12 month at December 31, 2022
Cash flow from financing activities		
Debt Financing		
Proceeds and repayment of short term loan	(3,505)	2,254
Proceeds of new long term loan	164	14,817
Repayment of long term loan	(3,765)	(37,194)
Cash flow from financing activities (C)	**(7,105)**	**(20,123)**
Increase/(Decrease) cash and cash equivalents (A ± B ± C)	**(49)**	**(5,041)**
Cash at hand and on bank at beginning of the period	**22,928**	**27,969**
Cash at hand and on bank at the end of the period	**22,879**	**22,928**
Net cash used in acquisition of Pasubio Group		
Consideration paid to the vendor		
Additional fees (ancillary charges)	(3,660)	(3,283)
Cash and cash equivalent obtained from the acquisition		
Net cash flow for the acquisition	**(3,660)**	**(3,283)**
Net cash used in acquisition of Innova		
Consideration paid to the vendor	(4,908)	
Additional fees (ancillary charges)	(33)	
Net cash flow for the acquisition	**(4,941)**	**-**

PASUBIO GROUP

Explanatory Notes
to the Consolidated Financial Statements
as of and for the period ended
December 31, 2023

Note 1. General information about the group

Pasubio Group (hereinafter also referred as to the “Group”) includes Conceria Pasubio S.p.A. (“Pasubio” or “Company”) and its subsidiaries Arzignanese S.r.l., GDI Assemblies LLC (“GDI U.S.A.”), GD Servicios Internationales del Norte S. de R.L. (“GDI Mexico”), Hewa Leder Gmbh (“Hewa”), Innova S.r.l. (“Innova”) and Pasubio South Africa (Pty) Ltd (“Pasubio South Africa”).

The Group is one of the world's leading players in the market for high-quality leather for the interiors of the most prestigious luxury brands in the automotive industry and, residually, also supplies leather goods.

The Group manages the entire production cycle which includes tanning, selection, dyeing, finishing, and cutting activities operating through twelve production sites, of which one is related to Arzignanese S.r.l. for the first tanning phase, five others attributable to Conceria Pasubio S.p.A. for the subsequent phases and one site where Innova S.r.l. operates the development and production of alternative materials such as PU. The remaining five sites are attributable one to GDI Mexico, one is attributable to Innova, one to South Africa and the last two to Hewa. Five of these twelve sites are located outside of Italy. In particular, a production site opened in 2017 is located in Serbia and operates through the branch constituted by the Conceria Pasubio S.p.A. One is located in Mexico and was acquired at the end of 2019 with the strategic aim of reinforcing its know-how and its share in the specific sector of steering wheel leathers. Two are located in Germany and they are connected with the strategic acquisition occurred on June 15, 2021, of Hewa, a tannery that permitted to reinforce the presence of Pasubio in the automotive and yachting luxury market. The latest one is located in South Africa and represents the first step in establishing the Group’s presence in the country.

Note 2. Basis of presentation

The Consolidated Financial Statements include the Consolidated Balance Sheet, the Consolidated Income Statement, the Consolidated Statement of changes in Shareholders’ equity, the Consolidated Cash Flow Statement and the Explanatory Notes which had been approved by the Board of Directors on April 29, 2024. Conceria Pasubio S.p.A. has prepared these Consolidated Financial Statements on voluntary basis in accordance with the accounting standards issued by the Italian Accounting Organization (Organismo Italiano di Contabilità, “O.I.C.”) (“Italian GAAP”), and do not constitute the Company’s statutory consolidated financial statements for the year ended December 31, 2023 since it adopts the exemption to the consolidation provided by the Article 27, paragraph 3 of Italian Legislative Decree 127/1991.
The consolidated Financial Statements as of December 31, 2023 will be prepared by Leather S.p.A.

In preparing the Consolidated Financial Statements, however, Conceria Pasubio reclassified and renamed certain Italian GAAP line items in order to facilitate comparability to the financial information of businesses that apply IFRS.

The items reported in the Consolidated Financial Statements are stated in accordance with the general principles of prudence and accruals, taking into consideration the economic function of the assets and liabilities.
The Consolidated Financial Statements are shown in Euro, which is the functional currency of the Group and its subsidiaries. All amounts shown in this document are expressed in thousands of Euro, unless otherwise specified.

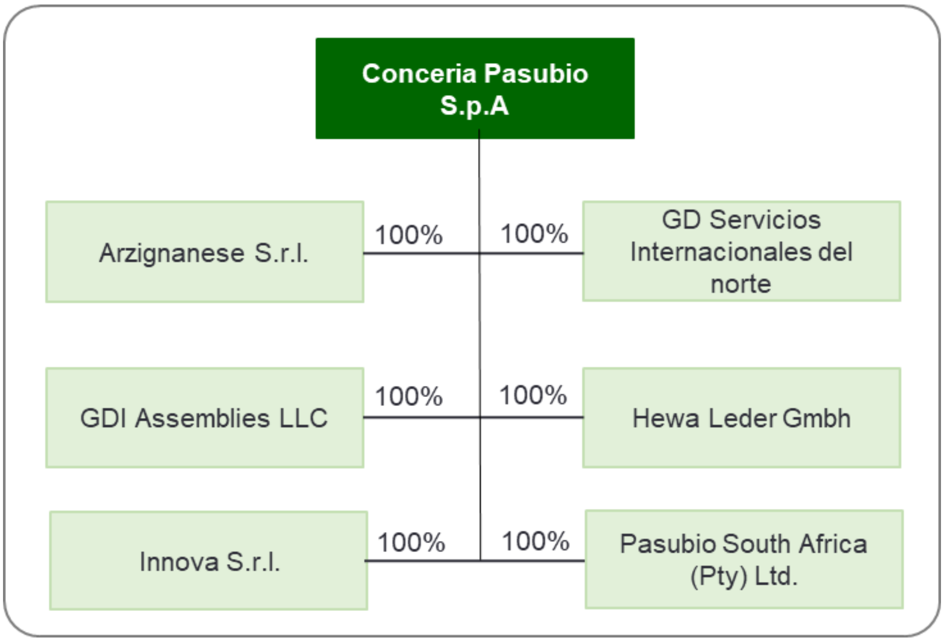
At the end of each period the assets and liabilities measured in foreign currencies, with the exception of non-current non-monetary assets (which maintain the carrying value of the transaction date) are recorded at the exchange rates at the reporting date and the relative gains or losses on exchange are recorded in the income statement.
The main exchange rates (currency for 1 euro) used to translate the financial statements in currencies other than the euro for the period ended December 31, 2023 are summarized below:

Currency		Average Rate	Closing Rate
		2023	As of December 31, 2023
USD	US Dollar	1.0813	1.105
MXN	Mexican Peso	19.183	18.7231
ZAR	Rand	19.9551	20.3477

The Consolidated Financial Statements have been prepared on a going concern basis taking into account also uncertainties related to the conflict between Russia and Ukraine as well as the current macroeconomic context.
Despite the performance of the business in 2023 not in line with the original expectation, taking into account the level of liquidity available (Euro 18.7 million as of December 31, 2023), the undrawn Revolving Credit Line (RCF) at the same date for Euro 58 million and the maturity date of the Notes, the RCF and the shareholder loan (respectively September 30,2028, April 28, 2028 and September 30, 2029) we do not identify conditions or events that raised substantial doubts about the entity's ability to continue as a going concern and consequently the Consolidated Financial Statements have been prepared on a going concern basis.
In this context it has not been identified critical estimates and critical judgements in addition to those highlighted in the "Use of estimates" paragraph included in the note 6: "Significant accounting policies".

Note 3. Scope of consolidation and presentation of the consolidated Financial Statements

The scope of consolidation of the Group has been determined by referring to the legal control that the Conceria Pasubio S.p.A. exercises over its subsidiaries.



The Consolidated Financial Statements consist of the Financial Statements of Conceria Pasubio S.p.A. and its subsidiaries: Arzignanese S.r.l., GDI Assemblies LLC, GD Servicios Internacionales de Norte S. de R.L, Hewa Leder Gmbh, Innova S.r.l. and Pasubio South Africa (Pty) Ltd in which Conceria Pasubio S.p.A. directly holds the majority of voting rights and over whose activities it exercises control.

The merger

With reference to the reverse merger (hereinafter also referred as to the "Merger") process by incorporation of the parent company Leather 2 into Conceria Pasubio S.p.A., on 14 October 2022 the deed of merger was signed between the two companies involved in the merger and, subsequently, on 17 October 2022 the deed of merger was registered in the competent Companies' Register.
From that date, therefore, the merger by incorporation became effective, thus concluding the merger process that began in early February of the 2022.
Subsequently, the Company assumed all rights and obligations previously held by Leather 2 S.p.A.
Following to the aforementioned Merger Pasubio Group has prepared on voluntary basis its first Consolidated Financial Statements while the Consolidated Financial Statements as of December 31, 2021 was prepared by Leather 2 S.p.A.

Note 4. Consolidation Accounting Principles

The Consolidated Financial Statements are prepared in accordance with the provisions of the Italian Legislative Decree 127/1991 and those of the accounting standard OIC 17 (Italian GAAP principle N.17).
The subsidiaries are included in the Consolidated Financial Statements from the date in which Pasubio acquired control or from the closest date with available data. The subsidiaries will be deconsolidated on the date in which Pasubio is no longer the controlling entity.

The Consolidated Financial Statements are consolidated on a line-by-line basis. The main consolidation criteria, which have been consistently applied year over year are described herein as follows:

• the carrying amount of investments in consolidated subsidiaries is eliminated against the corresponding net equity; positive differences are allocated, where possible, to the subsidiaries' assets considering moreover the related tax effect. Any non-attributable residual amount calculated at the date of acquisitions, represents goodwill and is recognized as intangible assets and amortized over its estimated useful life within a period no exceeding twenty years;

• all payables, receivables, revenue, and costs, including any unrealized profit and losses, deriving from transactions between subsidiaries and Pasubio or between subsidiaries are eliminated upon consolidation.

Reconciliation of net equity and result for the financial period as reported in the Financial Statements of Conceria Pasubio and those reported in the Consolidated Financial Statements as of December 31, 2023 are presented below:

€ thousand	Shareholders' Equity as of December 31, 2023	Result for the year ended December 31, 2023
Conceria Pasubio S.p.A.	102,341	(163,693)
Elimination of the book value of consolidate shareholding (Difference between book value and relevant shareholders' equity)	(311,727)	165,300
Goodwill	301,298	(161,413)
Concession, licences and similar rights	12,677	(1,987)
Deferred Tax on Concession, licenses and similar rights	(4,327)	554
Other Consolidation adjustments	388	(48)
Consolidated Conceria Pasubio S.p.A.	**100,650**	**(161,287)**

Note 5. Significant events throughout the period

SHL Conversion

In the ordinary course of business of Pasubio, the need to reduce the group's debt exposure has arisen in order to better position Pasubio in relations with its customers and in the participation of tenders. Once informally represented this situation to the sole shareholder Leather S.p.A. ("Leather") and to the indirect controlling shareholder PAI Europe VII Master Topco S.a.r.l. SICAV – RAIF ("PAI") on behalf of its compartments PAI Europe VII Opportunities and Pasubio Co-Invest, PAI offered to have its portion of the so-called bond "Leather 2021-2030 Qualified Bonds" (issued by Leather as part of the Pasubio acquisition financing) repaid.

Accordingly, on June 22, 2023, the bondholders' meeting of the aforementioned bond issue resolved, inter alia, to repay the portion of the bond subscribed by PAI on behalf of the two compartments, referring to the board of directors of Leather the decision on the operating methods with which such repayment should take place. On June 22, 2023, the board of directors of Leather was also held, took note of the resolution of the bondholders' meeting and thus approved the repayment of the 117,912,602 bonds, to be made on June 29, 2023 for Euro 138,481,082, including capital and interest accrued and accruing up to that date, including capitalized funds, in favor of the PAI Europe VII Opportunities and Pasubio Co-Invest sub-funds.

Also on June 22, 2023, the shareholders' meeting of Leather approved: (i) the amendment of Leather's By-Laws with, among other things, the introduction of a new "B1" class of shares; and (ii) a resolution to increase the capital in favor of PAI, on behalf of its PAI Europe VII Opportunities Pasubio Co-Invest sub-funds, excluding the option rights of all other shareholders, for a nominal amount of Euro 11,791,260, plus a share premium of Euro 126,689,822 (and therefore for a total of Euro 138,481,082), through the issue of 117,912,602 new "B1" class shares.

On June 26, 2023, another meeting of Leather's board of directors approved the partial (for a total amount of Euro 138,481,082, of which Euro 117,263,250 as principal and Euro 21,217,832 for interest as of June 29, 2023) remission of Pasubio's debt owed to Leather in relation to the shareholder loan that had been granted by Leather to the acquisition vehicle (Leather 2 S.p.A., merged into Pasubio in 2022). The remission granted the aimed improvement of the debt exposure of Pasubio, rebalancing Leather's indebtedness after the repayment of the bond.

On June 29, 2023, PAI subscribed to the Leather's capital increase described above by offsetting the amount due by Leather as repayment of the bond.

Innova S.r.l.

On February 15, 2023 has been formalized the acquisition of Innova S.r.l., located in Albaredo d'Adige (VR). The Company will strive during 2023 with a revamping of the tangible assets to align itself to the technological standard of Conceria Pasubio S.p.A., who will support financially Innova S.r.l.
In Innova, our R&D team will develop alternative materials to leather: synthetic material (PU) and a product line with new bio-chemicals and new green support trying to penetrate in new business segments by offering more innovative and sustainable materials.

The following table highlight the outcome of the Purchase Price Allocation (PPA) of Innova S.r.l. as of February 15, 2023:

€ thousand	As of February 15, 2023
Goodwill	359
Property, plant and equipment	5,801
Non-current Assets	**6,160**
Total Assets	**6,160**
Shareholders' equity	
Share capital	(100)
Reserve	(4,672)
Equity attributable to the owners of the parent	**(4,772)**
Shareholders' equity	**(4,772)**
Deferred tax liabilities	(1,201)
Provisions for employee severance indemnities	(151)
Non-Current Liabilities	**(1,352)**
Social security payables	0
Other payables	(36)
Current Liabilities	**(36)**
Total Liabilities and Shareholders' equity	**(6,160)**
Elimination of previous Goodwill	359
Shareholders's equity net elimination	(4,772)
Price consideration	5,566
Excess Price to be allocated	**1,153**

The excess price has been residually allocated to Goodwill.

Pasubio South Africa

During the three months ended March 31, 2023 Conceria Pasubio S.p.A. has established a legal entity in South Africa in order to initially set up a company presence in the country where we will serve a new international project starting from 2024.

Cash pooling

Conceria Pasubio Group adopted the Cash Pooling mechanism, a financial strategy aimed at optimizing the management of corporate liquidity. Conceria Pasubio S.p.A. assumes the role of Cash Pool Leader, coordinating the liquidity centralization operations for the group, which includes Cash Pool Members Arzignanese S.r.l. and Innova S.r.l., among other participants. Cash Pooling is a banking service that allows the unification of the liquidity of different current accounts into a single Master Account, managed by the Pooler, in this case, Conceria Pasubio S.p.A.. This mechanism involves the automatic transfer of funds to and from the participants' accounts, without the need for direct intervention by the companies involved. The goal is to optimize the group's financial flows, improving the control and efficiency of cash flows, reducing debt exposure and related costs, and centralizing administrative and control functions at the parent company level. This also avoids internal loans for short-term needs, increasing the Pooler's contractual power extended to the participants.

The decision to adopt Cash Pooling is part of the strategy to optimize current treasury flows among the Group's companies, with the aim of eliminating the coexisting debtor and creditor positions among the individual companies. This approach allows for a more efficient allocation of financial resources within the Group, centralizing liquidity management and the negotiation of interest rates and conditions at the parent company, with obvious economic advantages in terms of reduced financial expenses.

The implementation of the Cash Pooling mechanism was approved by the Board of Directors on April 26, 2023, marking a significant step towards optimizing the financial strategies of the Conceria Pasubio Group.

Note 6. Significant accounting policies

The most significant accounting policies adopted in the preparation of the Consolidated Financial Statements, in accordance with legislative requirements, are the following:

Goodwill

Goodwill is related to business combinations and is determined as the excess of the consideration transferred in the business combination, included the fees related to the acquisition, over the fair value of the net assets acquired and liabilities assumed at the acquisition date. The share of equity attributable to non-controlling interests, at the acquisition date, is in proportion to the equity of the acquired entity.

Goodwill is systematically amortised during its useful life within a period not exceeding twenty years.
When it is not possible to reliably estimate the useful life, is amortized within a period not exceeding ten years.
The useful life of the goodwill has been determined in the Purchase Price Allocation ("PPA") process.

Intangible assets

Intangible assets are recorded at the cost of purchase, including acquisition costs and are systematically amortised over their expected useful life. Intangible assets are recognised with the approval of the Board of Statutory Auditors in the cases foreseen under the law.

Costs associated with the purchase of rights are capitalised under intangible fixed assets. The cost comprises the fair value of the right and any other direct costs incurred for its adaptation or for implementation within the operating or productive context of the entity.
Leather tannery production activity requires the availability of water. Italian legislation requires companies that are engaged in the preparation and tannery of the leather to use and dispose water for the production activity only through specific rights and authorizations. Having the rights is a necessary condition in order to operate in the tannery business. For this reason, rights have identified during the PPA process.
Rights and authorizations are usually granted for a period of 15 years, but it is a business common practice to have them constantly renewed according to the evolution of the plants and production activities. The cost of the renewal of the Rights are negligible. The period of amortisation does not exceed the lower between the useful life and the duration of the legal/contractual rights.

Advertising and research costs are entirely recognised at cost during the financial year in which they are sustained.
Leasehold improvements are capitalised and recognised among "other intangible assets" if they cannot be separated from the assets themselves (otherwise, they are recognised among "property, plant and equipment" in the specific relative item). They are amortised/depreciated in a systematic manner at the lesser of the expected period of future utility and the remainder of the lease, considering any renewal periods, if these depend on the entity.

The amortisation criteria applied to the various intangible asset items are summarised below, reflecting the residual useful lives and the estimated useful lives of these capitalised costs:

Asset	Amortization rate
Start-up and expansion costs	12.5% - 20%
Development costs	20%
Concession, licences and similar rights	6.66% - 20%
Other intangible assets	20%

In accordance with OIC 9, and to support the valuation of the intangible assets on the Balance Sheet of the Group, the Directors performed impairment test every time there is an impairment indicator. Where the value of intangible assets, net of the amortization already recorded, reports a permanent impairment, a write-down is recognized in the Income Statement.

Property, plant and equipment

Property, plant and equipment are recognized at cost of purchase, inclusive of directly attributable acquisition costs, and additional cost occurred for improvements of the asset. Property, plant and equipment under construction and advances are recognized at cost of purchase and are not depreciated until their construction has been completed. The values of property, plant and equipment are depreciated on a straight-line basis. Purchases of assets with a value of less than Euro 516.46 are expensed through the Income Statement.

The annual rates used for depreciation are indicated in the following table:

Asset	Amortization rate
Land	0%
Building	4%
Plants and machinery	10% - 20%
Industrial and commercial equipment	10% - 25%
Other tangible assets	10% - 25%

Land is not subject to depreciation.

In accordance with OIC 9, and to support the valuation of the property, plant and equipment on the Balance Sheet of the Group, the Directors performed impairment test every time there is an impairment indicator. Where the value of property, plant and equipment, net of the depreciation already recorded, reports a permanent impairment, a write-down is recognized through the Income Statement.

In accordance with OIC 17 and OIC 12, financial leasing transactions were accounted for in accordance with IAS 17.

In accordance with OIC 9, and to support the valuation of the tangible assets on the Balance Sheet of the Group, the Directors performed impairment test every time there is an impairment indicator. Where the value of tangible assets, net of the depreciation already recorded, reports a permanent impairment, a write-down is recognized in the Income Statement.

Impairment of goodwill, intangibles assets and property, plant and equipment

At the end of each reporting period, goodwill, intangibles assets and property, plant and equipment are analysed to determine whether there are any indicators of impairment. If such indicators are identified, an impairment test is performed allocating any write-down to the Income Statement. The recoverable value of an asset is the greater of its fair value or its value in use, when the latter is the current value of the estimated future financial cash flows for such asset. In calculating the value in use, the forecast future cash flows are discounted using a discount rate that reflects the current market value of the cost of money for the period when the investment was made and the specific risks related to the asset.

A reduction of value is recognized in the Income Statement when the recognition value of the asset is greater than the recoverable value. If the reason for a write-down previously made no longer apply, the carrying value of the asset, excluded when the asset is Goodwill, is restored and allocated to the Income Statement, up to the amount of the net carrying value that the asset in object would have had if the write-down had not been made but it only has been amortized.

Investments in associates, controlled entities not fully consolidated and other companies

Investments in associates or in controlled entities not fully consolidated are accounted for using equity method, which implies the value of the investment to be adjusted by the share of loss / profit of the investee (which is accounted for in the line item "Share of (loss) / profit of the investee") and/or other movement in the equity such as capital contribution or dividends distribution.

Investments in other companies are accounted for at cost.

Inventory

Inventories of raw materials, semi-finished and finished products are stated at the lower of purchase or manufacturing cost and net realizable value.

Purchase cost includes ancillary charges; production cost includes directly attributable costs and a portion of indirect cost, reasonably attributable to the products.

Raw materials
Raw materials have been calculated using different methods (weighted average cost or specific cost) depending on the type of batch.

In particular, the cost of inventories that have heterogeneous characteristics has been calculated at specific costs, attributing to the individual assets the costs specifically incurred for them. The value thus determined has been appropriately compared with net realisable value.

The cost of raw materials of a fungible nature has been calculated using the weighted average cost method. The value thus determined has been appropriately compared with net realisable value.

Work in progress and semi-finished products
Work in progress and semi-finished products were calculated at specific costs, allocating to individual assets the costs specifically incurred for them during the year.

Finished products
Finished products have been calculated using different methods (weighted average cost or specific cost) depending on the type of batch.

In particular, the cost of finished products that have heterogeneous characteristics has been calculated at specific costs, attributing to the individual goods the costs specifically incurred for them. Hence, the value determined has been appropriately compared with net realisable value.

The cost of inventories of finished products of a fungible nature has been calculated using the weighted average cost method. The value thus determined has been appropriately compared with net realisable value.

Trade receivables

Receivables are recognised to the Financial Statements according to the amortised cost criteria, taking account of their timing and the expected realisable value. The amortised cost criteria is not applied where the effects are insignificant or where the settlement costs, commissions paid between the parties and any other difference between the initial value and the value on maturity is insignificant or where the receivables are short-term (i.e. with maturity of less than 12 months).
The value of receivables, established as above, is adjusted where necessary by a write-down provision, presented as a direct reduction of the value of the receivables to their expected realisable value. The write-down to the Financial Statements is equal to the difference between the book value and the value of estimated future cash flows, less amounts which are not expected to be received. The write-down is recognised in the Income Statement.

Receivables in foreign currency under current assets are registered at the current exchange rates on the date when the relative transactions take place. They are adjusted to the year-end exchange rate and any gains or losses are recorded on the Income Statement for the year. Any net profit is set aside in a specific reserve which may only be distributed upon realization.
A trade receivable is derecognized from the financial statements when all of the risks and rewards of ownership of the trade receivable has been substantially transferred when the right to receive the cash flows of the asset terminate or the entity retains the contractual right to receive the cash flows from the asset, but assumes a contractual obligation to pay the cash flows fully and without delay to a third party.
For the purpose of assessing the transfer of risks, all contractual clauses are considered.
When the receivable is derecognized from the financial statements, following a sale that transfers substantially all the risks, the difference between the consideration and the book value of the receivable at the time of sale is recognized as a loss on receivable to be booked under the item “Other operating costs” of the income statement, unless the contract allows for the identification of components economics of a different nature, including financial ones.

Cash at bank and on hand

Cash at bank and on hand are stated at nominal value.

Accruals and deferrals

Accrued income are related to the portion of revenue or income already earned but not yet invoiced.

Prepaid expenses are related to the portion of costs related to future periods/years for which invoices and the related payables have been already received/paid.

Accrued expenses are related to the portion of costs already occurred but for which the invoice has not been received.

Deferred income is related to the portion of revenue or income related to future years for which invoices and the related receivables have been already received/paid.

Provisions for risks and charges

Provisions for risks and charges are recorded based on the principles of prudence and accruals and include provisions made to cover losses and debts of a certain nature and of a certain and probable existence, with uncertain amount and occurrence date. The valuation of risks and charges which are dependent on future events also considers the information available after the fiscal year end and up to the preparation of the present Financial Statements. The provisions reflect the best estimate based on available information at the reporting date. Potential liabilities which are only considered possible are described in the notes.

Provisions for employee severance indemnities

The provision reflects the amounts accrued at the reporting date in favour of employees, in accordance with contractual and legislative requirements. Additionally, this liability is subject to indexation. It shall be noted that as of 1 January 2007, the Finance Law and related implementing decrees introduced significant changes in the regulation of provisions for employment termination benefits, including the employee's choice concerning the allocation of severance indemnities accruing (to the supplementary pension funds or the "Treasury Fund" managed by INPS – the national social welfare institution). The amount recorded in the Financial Statements is therefore net of payments to the mentioned funds.

Loans, trade and other payables

Loans, trade and other payables are recognised according to the amortised cost method, taking account of their timing. The amortised cost criterion is not applied to loans and payables where the effects are insignificant. Effects are considered insignificant for short-term loans and payables (i.e., with maturity of less than 12 months). For the amortised cost method reference should be made to loans and payables.

Trade payables in foreign currency are registered at the exchange rate at the date of the transaction. Then, they are adjusted on a year-end exchange rate and the difference between the two values are registered in the Income Statement for the year. The net profit is set apart in a specific reserve, which may be distributed only upon realization.

In order to ensure easier access to credit for its suppliers and given the importance of the supply chain to the leather industry, Conceria Pasubio S.p.A. has entered, with the suppliers that have chosen to apply for the program, into a reverse factoring agreement. Based on this agreement, the suppliers, some of whom have granted to the entity a longer due date for the payments, have the discretionary option to sell receivables due from the entity to a finance company and receive the amount owed before the due date. The payables referring to reverse factoring transactions are classified in the item "Trade payables".

Derivative financial instruments

Derivative financial instruments, as per the Company policies, are exclusively used for hedging purposes, in order to reduce the interest rate risk. In accordance with OIC 32, financial derivatives may be accounted for under hedge accounting only when, at the beginning of the hedge, the following conditions are met:

▪ the formal allocation of the hedging instrument exists;
▪ documentation is available demonstrating the hedging and a high degree of efficacy;
▪ such efficacy can be reliably measured;
▪ the hedge is highly effective during the various accounting periods for which it is designated. All derivative financial instruments are measured at fair value, in accordance with OIC 32.

Where hedging derivatives relate to cash flow changes of the hedged instruments (Cash flow hedges), the changes to the fair value are recognized within the hedging reserve in the equity. If the derivative instruments do not qualify as accounting hedges, the changes in the fair values are directly recorded to the income statement.

Other financing

Other financing includes financial debt with counterparties who are not banks and are stated at nominal value.

Recognition of revenue and costs

Revenues from the sale of products are recognized at the time ownership passes, which is generally upon shipment.
Revenues for services rendered are recorded at the time the service is completed and are shown in the financial statements in accordance with the principles of prudence and accrual, with recognition of the related accrued income and prepaid expenses.

Costs are recognized in the financial statements in accordance with the principles of prudence and accrual, with recognition of the associated accrued income and prepaid expenses.

Revenue and income, costs and charges are net of discounts, rebates, and premiums, as well as taxes directly connected with the sale of products and the provision of services.

Intra-group operations are carried out under normal market conditions.

Revenue and income, costs, and the related charges for operations in currency are determined at the exchange rate on the date that the relevant operation is completed.

Income and charges of a financial nature are recognized based on the relevant accounting period.

Financial income and expenses

All the positive and negative components of the economic result for the year related to the company's financial activities are recorded based upon the accruals principle.

Gains and losses arising from the conversion of foreign currency items are respectively credited and debited to the income statement under line item “Net exchange gains (losses)”.

Income taxes

Taxes are provided in accordance with the accruals principle; they therefore represent the amount for taxes paid or payable for the financial year, determined in accordance with the rates and regulations in force.

Conversion of items in foreign currency

Assets and liabilities originally expressed in foreign currency of a non-monetary nature are recorded in the Balance Sheet at the exchange rate at the time of purchase, i.e., at the cost of initial recording.

Assets and liabilities originally expressed in foreign currency of a monetary nature are translated into the financial statements at the spot exchange rate on the balance sheet date. At year-end, foreign currency assets and liabilities, except for fixed assets, are recorded at spot exchange rates as of the balance sheet date; the related foreign exchange gains and losses are recognized in the income statement and any net profit is allocated to a special fund reserve that cannot be distributed until realized.

Deferred tax assets and liabilities

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Financial Statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted as of the Balance Sheet date and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled. Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Dividends

Dividend income is recognized when the investor's right to receive payment is established, following the declaration of a dividend by the investee's shareholders in general meeting.

Other information

Waivers

It should be noted that there were no exceptional cases that required waivers from the provisions of the law relating to financial statements pursuant to Article 2423 of the Italian Civil Code. 4 of the Italian Civil Code.

There were no exceptional events that made it necessary to resort to the waivers provided for in art. 2423- bis para. 2 of the Civil Code.

There was no grouping of items in the balance sheet or income statement.
There are no asset or liability items that fall under more than one item of the scheme referred to in Article 2424 of the Italian Civil Code.

Use of estimates
For Financial Statements preparation, it is necessary that the Management make estimates and assumptions which have effects on the values of assets and liabilities accounted for the Balance Sheet and even on potential assets and liabilities at the Financial Statements date. The estimates and assumptions used are based on experience and on other relevant factors. For this reason, the actual results could be different from these estimates. The estimates and assumptions are reviewed periodically and the effects of each variation are reflected on the Income Statement in the year when the estimate is revised. The Balance Sheet items that are affected by use of estimate are the bad debt reserve, the provisions for risks and charges and the evaluation of the recoverable value of goodwill, intangible assets and plant and equipment.

Regarding the provisions for risks and charges and the write-down of doubtful receivables, the Financial Statements reflects the estimate based on the best knowledge of the state of litigation, using the information provided by the legal and tax advisors, who assist the Company and of the solvency of the counterparts. The estimate of risks is subject to the risk of uncertainty of any estimate of a future event and the outcome of litigation, and it cannot be excluded that in future fiscal years, costs which cannot currently be estimated, might arise due to a worsening of the state of litigation and the level of counterparts' solvency.

In case of impairment indicators goodwill, intangible assets and property, plant and equipment are tested for impairment through the calculation of the recoverable amount of the CGU as the value in use using the discounted cash flow method applying assumptions, such as estimates of future increases in sales, operating costs, the growth rate of the terminal value, investments, changes in working capital and the weighted average cost of capital (discount rate). The value in use may change if the main estimates and assumptions made in the plan change and, so the impairment test. Therefore, the recoverable value of the recognized assets may also change.

Analysis of Balance Sheet items

Note 7. Goodwill

€ thousand	As of December 31, 2022	Increase	(Amortization)	(Decrease)	Other	Inclusion in consolidation area	As of December 31, 2023
Goodwill	461,552		(24,559)	(136,854)		1,159	301,298
Total Goodwill	**461,552**	**-**	**(24,559)**	**(136,854)**	**-**	**1,159**	**301,298**

Goodwill arising from the acquisition of Conceria Pasubio Group amounted originally to Euro 490,8 million. It was determined as the sum of the consideration transferred included the fees related to the acquisition minus the net identifiable assets acquired and liabilities assumed measured at fair value in accordance with OIC 17.

Based on the considerations that most significant part of the Goodwill was attributable to Conceria Pasubio's customer relation and on specific customer relationship analysis performed during the PPA process, the useful life of the goodwill has been determined in 20 years.

After the acquisition of Innova and South Africa the amount of the Goodwill of Pasubio Group has increased for a total amount of Euro 1,159 thousand respectively Euro 1,153 thousand for Innova (as shown in *Note 5. Significant events throughout the period*) and Euro 6 thousand for Pasubio South Africa.

Impairment Test

Considering the results achieved by the Group in the 2023 financial year, and the forecasts outlined in the 2024-2027 business plan ("Business Plan") approved during the Board of Directors meeting on March 29, 2024, both of which were lower than the expectations formulated at the time of acquisition by Leather 2 S.p.A. (from which has been originated, among the others, the actual amount of goodwill), the economic environment, the significance of intangible assets including goodwill, an impairment test was conducted for the net invested capital of the cash-generating units ("CGUs").

In particular independent CGUs were identified except for the subsidiaries Pasubio South Africa (Pty) Ltd and Innova S.r.l., which are included in the CGU of Conceria Pasubio S.p.A..

The identified CGUs are as follows:

- CGU "Conceria Pasubio" inclusive of Conceria Pasubio S.p.A., Pasubio South Africa (Pty) Ltd, Innova S.r.l.
- CGU "Arzignanese" inclusive of Arzignanese S.r.l.
- CGU "Hewa" inclusive of Hewa Leder GmbH,
- CGU "GD/GDI" inclusive of GDI Assemblies Limited Liability Company, GD Servicios Internacionales del Norte S. de R.L. de C.V. and the new company Pasubio Mexico

The recoverable amount of each CGU was determined based on its value in use calculated using the discounted cash flow ("DCF") method by discounting the operational cash flows at a discount rate representative of the weighted average cost of capital (WACC).

The main assumptions used for determining the future financial cash flows, over a four-year time horizon, and the resulting recoverable amount (value in use) refer to:

- the expected future cash flows from the Business Plan, using a four-year explicit period plus the estimate of Terminal Value;
- the WACC discount rate;
- the growth rate (g rate) estimated for the development of expected cash flows beyond the Business Plan period.

The discount rates (WACC) and growth rates (g-rate) used are summarized below:

	Conceria Pasubio	Arzignanese	Hewa	GDI
Discount Rate (WACC)	10.8%	10.8%	10.8%	10.1%
Growth Rate (g-rate)	2.0%	2.0%	2.0%	2.0%

The outcome of the impairment test resulted in the recognition of durable impairments of value regarding Goodwill of Euro 136,854 thousand.

€ thousand	Impairment Loss
CGU "Conceria Pasubio"	(134,162)
CGU "Hew a"	(2,476)
CGU "GDI"	(215)
Impairment Loss Total	**(136,854)**

With reference to the outcome of Impairment test we highlight that in the current economic and market environment, the assumptions made regarding future performance are subject to significant uncertainties. Therefore, it cannot be excluded that different results of those assumptions may materialize in the next financial years, which are obviously not predictable or estimable at this time.

Note 8. Intangible assets

As of December 31, 2023 Intangible Assets amount is Euro 23.446 thousand.

Intangible assets are detailed as follow:

€ thousand	As of December 31, 2022	Increase	(Amortization)	(Decrease)	Currency translation difference	Inclusion in consolidation area	As of December 31, 2023
Start-up and expansion costs	5,772	1,094	(1,595)	-	-	-	5,271
Development costs	2,802	1,561	(1,731)	-	-	-	2,632
Rights	-	-	-	-	-	-	-
Concessions, licenses and similar rights	14,663	-	(1,988)	-	2	-	12,677
Other intangible assets	1,710	1,388	(1,171)	(6)	(0)	-	1,921
Constructions in progress	282	663	-	-	-	-	945
Total intangible assets	**25,230**	**4,706**	**(6,485)**	**(6)**	**1**	**-**	**23,446**

Start-up and expansion costs

The net book value of the item “start-up and expansion costs” mainly refers to "lump sum" contributions that Conceria Pasubio S.p.A. recognises to car manufacturers when they are awarded new long-term projects.

Development costs

The net book value of the item “development costs” mainly involves the expenses that Conceria Pasubio S.p.A. has sustained to develop new products that are considered innovative and technologically advanced.

Concessions, Licences and similar rights

The rights, which net book value amounts to Euro 12.677 thousand, refer to the use and dispose water for the production activity only through specific rights and authorizations. Having the rights is a necessary condition for running the tannery business. They have been identified during the PPA process (Euro 16.973 thousand) and refer to Conceria Pasubio (Euro 10.557 thousand, amortized over 15 years) and to Arzignanese (Euro 6.416 thousand, amortized over 5 years).

Other intangible assets

The net book value of the item “other intangible assets” mainly refers to software, mainly attributable to Conceria Pasubio S.p.A..

Note 9. Property, plant and equipment

As of December 31, 2023 property, plant and equipment amount is Euro 74.373 thousand.

Depreciation allocated during the period has been calculated on all depreciated property, plant, and equipment, applying tax rates representative of their technical and economic life, as specified in the significant accounting policies.
Property, plant and equipment, are detailed as follow:

€ thousand	As of December 31, 2022	Increase	(Amortization)	(Decrease)	Reclass	Inclusion in consolidation area	As of December 31, 2023
Land and building	26,350	1,086	(1,721)	(1)	3,019	3,885	32,618
Plants and machinery	24,397	17,366	(8,193)	(163)	-	1,850	35,258
Industrial and commercial equipment	2,190	961	(559)	-	-	52	2,644
Other tangible assets	458	91	(77)	(49)	-	14	436
Constructions in progress	4,931	1,513	(7)	-	(3,019)	-	3,418
Total tangible assets	**58,326**	**21,016**	**(10,557)**	**(213)**	**-**	**5,801**	**74,373**

The amount of Euro 5.801 thousand represents the inclusion in Consolidation Area of Innova S.r.l..

Land and building refer to the properties owned by the Group, mainly related to Conceria Pasubio for Euro 32.618 thousand as of December 31, 2023. Specifically, the value of land is Euro 6.655 thousand, while the remainder relates to industrial and civil buildings.

Plant and Machinery mainly refers to the substantial investment plan that Conceria Pasubio S.p.A. has undertaken over the years and that has involved all the factories to carry out a technological renewal of existing plants and increase production capacity.

Industrial and commercial equipment includes the cost of purchase of various equipment for warehouse (trestles, platforms, stainless steel tanks, etc.) and laboratory.

Other tangible assets throughout the period are mainly related to vehicles and cars as well as other office equipment.

Constructions in progress Euro 3.019 thousand mainly refers to the reclass of our building in our Serbian plant which is has been completed during the year 2023.

Note 10. Investment in subsidiaries and other companies

The relevant information referring to the associated companies is set forth below:

€ thousand	As of December 31, 2023	As of December 31, 2022
Other companies	106	106
Total inventories	**106**	**106**

The value of equity investments as of December 31, 2023 is Euro 106 thousand, of which Euro 104 thousand in Utiac S.p.A. and Euro 2 thousand in Consorzio Concerie Vicenza.
The value of equity investments as of December 31, 2022 was Euro 106 thousand, of which Euro 28 thousand pertaining to Conceria Pasubio (Euro 26 thousand in Utiac S.p.A., Euro 2 thousand in Consorzio Concerie Vicenza) and Euro 77 thousand pertaining to Arzignanese (Utiac S.p.A.).

Note 11. Other assets

The other assets amount to Euro 2.444 thousand as of December 31, 2023 and to Euro 4.788 thousand as of December 31, 2022.
The amount as of December 31, 2023 mainly refers to the fair value of the two hedging instruments subscribed by Conceria Pasubio S.p.A. to mitigate the risk related to the increase of the interest rate.

Note 12. Inventories

As of December 31, 2023 inventory amount to Euro 78.295; and to Euro 93.390 thousand as of December 31, 2022.

Inventory is detailed as follow:

€ thousand	As of December 31, 2023	As of December 31, 2022
Raw Materials	24.099	26.590
Work in progress and semi-finished products	47.553	58.492
Finished products	6.643	8.308
Total inventories	**78.295**	**93.390**

Inventory is stated net of provisions for warehouse stock write-downs, to report its estimated realisable value. These provisions both reflect the economic and physical obsolescence of inventories.

Note 13. Trade receivables

Trade Receivables are specified below:

€ thousand	As of December 31, 2023	As of December 31, 2022
Trade receivables		
- of which within 12 months	42,081	41,891
- of which beyond 12 months	-	-
Total trade receivables	**42,081**	**41,891**
Bad debt provision	(1,440)	(1,146)
Total trade receivables net of bad debt provision	**40,641**	**40,745** [1]

Write-downs are made based on a careful analysis of past due accounts, customers in financial difficulties and clients with whom legal action has been initiated, in addition to estimated expected losses on receivables.

The doubtful debt provision reflects management's estimate derived from the expected losses by the Group, based on past experience for similar receivables, such as current and historic amounts overdue, losses incurred, receipts, careful monitoring of the credit quality and projections on economic and market conditions, with the information known at the reporting date.
The annual provision is included under "Write-down of trade receivables".

The movements of the "Bad debt provision" for trade receivables during the year are detailed as follows:

€ thousand	As of December 31, 2023
Balance of bad debt provisions trade receivables as of December 31, 2022	**1,146**
Use for losses on receivables	(13)
Releases	(363)
Inclusion in consolidation area	
Provision	669
Balance of bad debt provisions trade receivables as of December 31, 2023	**1,440**

[1] Please note that the amount of Euro 3.683 have been reclassified from Trade receivables to Other receivables as of December 31, 2022 for comparability purpose.

Note 14. Tax receivables

Tax Receivables are specified below:

€ thousand	As of December 31, 2023	As of December 31, 2022
VAT recoverable from the tax authorities	2,336	2,551
Direct tax credits	872	157
Other tax credits	497	516
Total tax receivables	**3,706**	**3,224**

The VAT receivables derive from the periodic settlement of VAT in the various Group companies, which resulted in a receivable towards the tax authorities. This receivable is mainly attributable to Conceria Pasubio, which has a VAT credit of Euro 1.558 thousand as of December 31, 2023 and of Euro 2.213 thousand as of December 31, 2022.

Note 15. Deferred tax assets

€ thousand	As of December 31, 2023	As of December 31, 2022
Deferred tax assets		
Conceria Pasubio S.p.A.	856	1,033
Arzignanese S.r.l.	143	125
Pasubio South Africa	3	-
Total deferred tax assets	**1,001**	**1,159**
IC Profit	13	-
Consolidation IAS 17	11	5
Total deferred tax assets after consolidation	**1,026**	**1,163**

Deferred tax assets relate to the temporary differences on customer indemnity provided for by collective economic agreements, the write-down of receivables, and differences between tax and statutory amortisation/depreciation rates.
This item also includes a balance of Euro 24 thousand relating to consolidation entries (adoption of IAS 17 for financial leasing and the intercompany elision of the profit in stock) as of December 31, 2023.

Note 16. Other receivables

Other receivables are composed as follows:

€ thousand	As of December 31, 2023	As of December 31, 2022
Advanced payments to supplier	8	786
Social security istitutions	65	168
Other receivables	7,416	7,545
Total other receivables	**7,489**	**8,499**

Advanced payments to suppliers are principally attributable to Conceria Pasubio S.p.A.
The figure other receivables are deemed to be fully collectable and no value adjustments have been made. The other receivables mainly refer to the state incentives that Conceria Pasubio S.p.A. received during the 2023 for energy and gas but also for innovation and R&D which are still due at the end of year 2023 and to the credit from Leather S.p.A. in relation to the fiscal consolidation of Conceria Pasubio S.p.A., Arzignanese S.r.l. and Leather S.p.A..

Note 17. Prepaid expenses and accrued income

The prepaid expenses and accrued income amount to Euro 1.821 thousand as of December 31, 2023 and to Euro 2.205 thousand as of December 31, 2022.

Note 18. Cash at bank and on hand

Cash at bank and on hand comprise cash on hand and demand deposits. The line item amounts to Euro 22.879 thousand in 2023 and to Euro 22.928 thousand in 2022.For more details, please refer to Cash Flow Statement.

LIABILITIES AND SHAREHOLDERS' EQUITY

Note 19. Shareholders' Equity

€ thousands	Share capital	Legal Reserve	Share premium reserve	Revaluation Reserve	Hedging Reserve	Shareholders' Fund	Consolidation Reserve	Translation Reserve	Extraordinary Reserve	Retained earnings/losses	Fiscal year profit/loss	Total Group shareholders' equity
Balance as of December 31, 2022	6,800	1,447	60,876	10,432	2,884	-	487	159	57,424	(12)	(15,375)	125,122
Conversion SHL to Equity						138,481						**138,481**
Cash flow hedge reserve					(1,752)							**(1,752)**
Other movements								81	2,401	(17,771)	15,375	**86**
Result for the period ended December 31, 2023											(161,287)	**(161,287)**
Balance as of December 31, 2023	6,800	1,447	60,876	10,432	1,132	138,481	487	240	59,825	(17,783)	(161,287)	100,650

Share capital
The share capital subscribed to and paid-in amount to Euro 6.800 thousand as of December 31, 2023.

Legal reserve
The legal reserve amount to Euro 1.447 thousand as of December 31, 2023.

Share premium reserve
The share premium reserve amount to Euro 60.876 thousand as of December 31, 2023.

Revaluation reserve
The revaluation reserve amount to Euro 10.432 thousand as of December 31, 2023.

Hedging reserve
The hedging reserve amount to Euro 1.132 thousand as of December 31, 2023.
The hedging reserve is connected to the two hedging instruments that Conceria Pasubio S.p.A. has issued to cover from the risk of increasing of the interest tax and to their evaluation at the *fair value*.

Consolidation reserve
The consolidation reserve amount to Euro 487 thousand as of December 31, 2023.
The consolidation reserve is connected to the *badwill* erase from the acquisition of GDI US and GD Mexico minority.

Translation reserve
The translation reserve amount to Euro 240 thousand as of December 31, 2023.
The Translation reserve includes exchange rate differences arising from the translation of the opening shareholders' equity of foreign companies included in the consolidation scope at the exchange rates prevailing at the end of the year and from the translation of their net income at the average exchange rates for the year.

Note 20. Deferred tax liabilities

Deferred tax liabilities are as follows:

€ thousand	As of December 31, 2023	As of December 31, 2022
Deferred tax liabilities		
Conceria Pasubio S.p.A.	4,954	5,836
Arzignanese S.r.l.	19	19
Innova S.r.l.	1,144	-
Total deferred tax liabilities	**6,118**	**5,855**
Rights	1,014	1,372
Consolidation Effects	(813)	(922)
Consolidation IAS 17	239	265
Total deferred tax liabilities after consolidation	**6,559**	**6,570**

The amount related to Conceria Pasubio S.p.A. mainly refers to the Rights arising from the Merger process for Euro 4.628 and to the revaluation of the land carried out only for statutory purposes for Euro 4.000 thousand, according to Law n.2/2009.

The amount related to Innova S.r.l. mainly refers to the deferred tax liabilities linked to the revaluation of the tangible assets acquired by Pasubio S.p.A. during the acquisition process of Innova S.r.l..

The item also includes:

- a balance equal to Euro 239 thousand related to consolidation effect of the accounting according to IAS 17 of the assets purchased by Conceria Pasubio S.p.A. and Arzignanese S.r.l.;
- a balance equal to Euro -813 thousand related to the Merger process and the deferred tax liabilities linked to the investments of Conceria Pasubio S.p.A. in the other companies of the Group;
- a balance equal to Euro 1.014 thousand related to the Rights arising in accordance with OIC 24 related to Arzignanese. The period of amortizing is 5 years.

Note 21. Provisions for employee severance indemnities

Provisions for employee severance indemnities has changed as follows:

€ thousand	Conceria Pasubio S.p.A.	Arzignanese S.r.l.	Innova S.r.l.	Total
As of December 31, 2022	**672**	**1,001**	**-**	**1,673**
Uses/releases	(29)	(259)		(287)
Inclusion in consolidation area			154	154
Accrual	1,284	105	21	1,410
Other	(1,270)			(1,270)
As of December 31, 2023	**657**	**847**	**176**	**1,680**

The amount is calculated in relation to contractual obligations and applicable law.
The amount of Euro 1.270 thousand is related to the provisions for employee severance indemnities destinated to supplementary pension fund.

Note 22. Provisions for risks and charges

Provisions for risks and charges are as follows:

€ thousand	As of December 31, 2023	As of December 31, 2022
Provision for agents' termination benefit	513	634
Other provision	127	52
Total provision for risks and charges	**640**	**686**

The provision for agents' termination indemnity represents the estimated liability resulting from the application of current legislation and contractual clauses regarding the termination of agency relationships.
The provision for agents' termination indemnity amounts to Euro 513 thousand as of December 31, 2023.
The other provision amount to Euro 127 thousand as of December 31, 2023 and it manly refers to other potential liabilities.

Note 23. Shareholders' Loan

Shareholders' Loan amount to Euro 14.034 thousand for the period ended December 31, 2023.

€ thousand	As of December 31, 2023	As of December 31, 2022
Shareholders' loan	11.302	128.700
Conceria Pasubio S.p.A.	*11.302*	*128.700*
Accrued interest	2.732	16.051
Conceria Pasubio S.p.A.	*2.732*	*16.051*
Total Shareholders' Loan	**14.034**	**144.751**

The amount represents:

- the shareholder loan granted to Leather 2 S.p.A. on October 26, 2021. The interest rate is 10% and provides the liquidation of the interest on September 30, 2029. The repayment of this shareholder loan is subordinated to the Notes.

Please note that during the year 2023 the amount of Euro 138.481 thousand has been conversed into Equity, more details are shown in *Note 5 "Significant events throughout the period"*.

Note 24. Notes

Notes amount to Euro 340.000 thousand for the year ended December 31, 2023.

€ thousand	As of December 31, 2023	As of December 31, 2022
- Notes	340,000	340,000
- Accrued interest	60	63
- Amortized costs	(10,199)	(11,876)
Total Notes	**329,861**	**328,188**

Leather 2 S.p.A. issued Euro 340.0 million of senior secured notes currently listed on the Euro MTF of the Luxembourg Stock Exchange. The Notes will mature on September 30, 2028. Interest on the Notes accrues at a rate of three-month EURIBOR (with a 0% floor) plus 4.5% and provides for interest payments on a quarterly basis. Following to the aforementioned Merger the senior secured notes has been transferred to Conceria Pasubio S.p.A..

Note 25. Bank Loan

Borrowing from banks are analysed in the following table:

€ thousand	As of December 31, 2023	As of December 31, 2022
Bank loan		
- of which whithin 12 months	11.834	14.923
- of which beyond 12 months	8.844	11.604
Total bank loan	**20.678**	**26.527**

The main Bank loans represented can be split as follows:

- Hewa Financing with Commerzbank: amount to Euro 2.578 thousand as of December 31, 2023; the interest rate is 1,57%
- Several Pasubio short term Credit lines like import/export or other cash credits: amount to Euro 11.077 thousand as of December 31, 2023; the interest rate is between 0,35% and 0,70%
- "Revolving Credit Facility": amounts to Euro 7.0 million as of December 31, 2023; the interest rate is between 2.75% and 3.25% plus six months EURIBOR. The total available amount is equal to Euro 65.0 million, the interest rate applied on the undrawn is 30% the interest rate applied on the drawn amount (without the EURIBOR rate). We highlight that we are subject to quarterly covenant testing and we inform that for the closing at December 31, 2023 the covenant test has been met.

Note 26. Other financial liabilities

Other financial liabilities are as follows:

€ thousand	As of December 31, 2023	As of December 31, 2022
Other financial liabilities		
- of which whithin 12 months	3.542	4.106
- of which beyond 12 months	3.432	3.226
Total other financial liabilities	**6.975**	**7.332**

In particular, the amounts due other financial liabilities, throughout the period, are as follows:

€ thousand	As of December 31, 2023	As of December 31, 2022
Leasing Debt of Arzignanese S.r.l.	656	1.047
Leasing Debt of Conceria Pasubio S.p.A.	2.967	2.464
Debts to factoring companies	2.261	2.895
Other financial liabilities	1.091	927
Total other financial liabilities	**6.975**	**7.332**

Leasing debts mainly refer to contracts signed by Arzignanese S.r.l. and Conceria Pasubio S.p.A. for the purchase of machinery and equipment.

Note 27. Trade payables

The following table shows the breakdown trade payables throughout the period:

€ thousand	As of December 31, 2023	As of December 31, 2022
- of which whithin 12 months	57.740	61.300
Conceria Pasubio S.p.A.	52.084	55.413
Arzignanese S.r.l.	2.081	2.250
GDI Assemblies LLC	1.026	1.718
GDI Servicios Internacionales del norte, S. De R.L. De CV	121	53
Hewa Leder Gmbh	1.566	1.866
Innova S.r.l.	854	-
Pasubio SA	8	-
Total Trade payables	**57.740**	**61.300**

Trade payables include payables mainly refer to raw material suppliers.

Note 28. Tax payables

€ thousand	As of December 31, 2023	As of December 31, 2022
Payables for withholding tax	1,066	981
Payables for VAT	84	423
Income tax liabilities for the period	92	551
Other	221	203
Total Tax payables	**1,463**	**2,158**

“Payables for withholding tax”, throughout the period, mainly refer to Conceria Pasubio S.p.A. and Arzignanese S.r.l.

“Income tax liabilities for the period” mainly refers to the debit balance of taxes.

Note 29. Social Security payables

These amounts, related mainly to contributions (social and others) for the month of December of the period, can be broken-down as follows:

€ thousand	As of December 31, 2023	As of December 31, 2022
Payables to INPS	**1,467**	**1,330**
Conceria Pasubio S.p.A.	1,371	1,249
Arzignanese S.r.l.	76	81
Innova S.r.l.	19	-
Payables to INAIL	**15**	**70**
Conceria Pasubio S.p.A.	-	-
Arzignanese S.r.l.	13	70
Innova S.r.l.	2	-
Payables to PREVINDAI and others	**218**	**183**
Conceria Pasubio S.p.A.	216	182
Arzignanese S.r.l.	3	1
Payables to ENASARCO	**12**	**12**
Conceria Pasubio S.p.A.	12	12
Arzignanese S.r.l.	-	0
Expenses for vacation matured but not taken	**891**	**814**
Conceria Pasubio S.p.A.	779	698
Arzignanese S.r.l.	102	116
Innova S.r.l.	10	-
Expenses for bonus matured but not taken	**387**	**633**
Conceria Pasubio S.p.A.	387	633
Payables to other entities	**64**	**123**
GD Servicios Internacionales del Norte, S. De R.L. De CV	15	64
Hewa Leder Gmbh	49	59
Total social security payables	**3,054**	**3,165**

Note 30. Other payables

€ thousand	As of December 31, 2023	As of December 31, 2022
Payables to employees and contractors for remuneration accrued but not yet paid	8.807	7.411
Miscellaneous other payables	74	1.142
Total other payables	**8.881**	**8.553**

Payables to employees and contractors for remuneration accrued but not yet paid include, throughout the period, payables related to the allocation of the bonuses matured by registered personnel and linked to the seasonal objectives achieved.

Miscellaneous other payables are mainly related to Conceria Pasubio S.p.A. and include payables to directors, collaborators and supplementary pension funds. As of December 31, 2022, there is also the unpaid portion related to the acquisition of Hewa Leder Gmbh.

Note 31. Accrued expenses

The accrued expenses amount to Euro 5.309 thousand as of December 31, 2023. The amount mainly refers to the grants received by Conceria Pasubio S.p.A. which refer to multiple years.

Analysis of Income Statement items

REVENUE AND OTHER INCOME

Note 32. Revenue and other revenue and income

Revenue are detailed in the following table:

€ thousand	As of December 31, 2023	As of December 31, 2022
Proceeds from the sale of goods	345,755	344,778
Revenues for service provided	13,725	12,576
Total Revenue	**359,479**	**357,354**

Pasubio is a specialised producer of luxury automotive upholstery and manufactured leather. It produces finished articles from wet-blue or wet-white leather.

The Group controls the entire production cycle which includes the tanning, selection, dyeing, finishing and cutting activities operating through 12 production sites. One of these sites, opened in 2017, is located in Serbia and operates through the branch established by the Group while another, acquired at the end of 2019, is located in Mexico and operates in the saddling leather for steering wheels. Further two more are located in Germany (acquired trough Hewa acquisition) and one in South Africa.
Revenue amount to Euro 359.479 thousand as of December 31, 2023. Revenues are shown net of discounts and rebates. To provide adequate disclosure, a breakdown of revenues by region is provided below:

€ thousand	As of December 31, 2023	As of December 31, 2022
Europe	323,463	306,890
Asia	9,575	12,959
Africa	16,721	13,837
America	9,889	22,009
Rest of the World	371	1,659
Total Revenue	**359,479**	**357,354**

In terms of geographical areas, the EMEA remains the Group's primary market, accounting for 87% of total revenue in 2023.

Other revenue and income are detailed in the following table:

€ thousand	As of December 31, 2023	As of December 31, 2022
Other revenue from third parts	4.016	6.183
Capital gains	213	142
Total other revenue and income	**4.230**	**6.325**

"Other revenue from third parts" mainly relate to government incentives, to ancillary sales services and to releases of provisions related to litigation with former employees.
"Capital gains" mainly relate to disposals of assets.

TOTAL OPERATING COSTS

Note 33. Purchase of goods and changes in inventory

Purchase of goods and changes in inventory comprise costs of raw materials, supplies and consumables as listed below:

€ thousand	As of December 31, 2023	As of December 31, 2022
Raw material	*164,203*	*180,582*
Finished goods	*66*	*188*
Other purchases	*6,743*	*6,002*
Purchase of raw materials, components and finished goods	**171,012**	**186,772**
Change in inventories of finished goods and semi-finished products	12,562	1,338
Change in inventories of raw materials and goods	2,506	(805)
Total purchase of goods and changes in inventory	**186,081**	**187,305**

Purchase of raw materials, consumables and goods and changes in inventory amount to Euro 186.081 thousand as of December 31, 2023.

Note 34. Use of third-party assets

Rent, leasing and similar costs amount to Euro 1.400 thousand as of December 31, 2023.

Note 35. Costs of services

Costs of services consist of the following:

€ thousands	As of December 31, 2023	As of December 31, 2022
Outsourced processing	26,869	23,225
Cleaning and ecology	8,731	7,941
Consulting, Board Compensation and Statutory Auditors	6,613	4,877
Other cost of services	6,167	6,583
Maintenance performance	4,217	5,185
Utilities	8,427	7,027
Transport costs	4,236	3,565
Agents, depositaries and collaboration awards	1,847	1,364
Insurance	1,035	1,060
Travel expenses	952	638
Postal, telephone and telex costs	329	315
Representation expenses	148	119
Advertising, propaganda and sales services	157	3
Total Costs of Services	**69,729**	**61,902**

Outsourced processing is determined by the production methods of the Group, which concentrates internally processing, high value added and core activities.
Cleaning and ecology costs relate to the expenses sustained by the Group after the ordinary production cycle.
Consulting, Board Compensation and Statutory Auditors include fees to the Statutory Auditors and to the Independent Auditing Firm (“auditors’ fees”) and fees to the Directors calculated based on the resolution determining the fees for the office of the Directors, also considering the benefits and indemnities in the case of the early termination of the mandate.
Other cost of services mainly refers to miscellaneous cost sustained by the Group.

Transport costs on purchases and sales is linked to business performance and a different mix of countries to which the Group sells.
Maintenance performance is related to the expenses that the Group sustained to maintain the machinery and guarantee their functionality.

Note 36. Personnel costs

These are broken down as follows:

€ thousand	As of December 31, 2023	As of December 31, 2022
Salaries and wages	32.590	34.176
Social security contributions	10.228	9.933
Employee severance indemnities	1.659	1.460
Other personnel costs	6.089	5.548
Total personnel costs	**50.567**	**51.116**

Other personnel costs mainly refer to temporary worker costs.
The average number of people employed by the Group is composed as follows:

Average Workforce	Conceria Pasubio SpA	Arzignanese s.r.l.	GDI e GD	Hewa Leder Gmbh	Innova S.r.l.	TOTALS
Executives	12	0	3	1	0	16
Managers	44	0	7	3	0	54
Employees	163	6	36	15	2	222
Workers	900	36	231	118	9	1,294
	1,119	**42**	**277**	**137**	**11**	**1,586**

Note 37. Other operating costs

Other operating expenses consist of:

€ thousand	As of December 31, 2023	As of December 31, 2022
Other operating charges	1.077	1.156
Other expenses	153	171
Taxes and non-income taxes	9	24
Total Other operating costs	**1.239**	**1.351**

Note 38. Capitalization in fixed assets for internal work

Capitalization in fixed assets for internal work amount to Euro 2.682 thousand as of December 31, 2023.
The capitalized amount is consistent with the capitalization provisions as best described under "Intangible assets".

Note 39. Depreciation, amortization and impairment loss

Please refer to Note 7. Goodwill, Note 8. Intangible assets and Note 9. Property, plant, and equipment for more details.

Note 40. Write-down of trade receivables

The write-down of doubtful account receivables included in current assets reflect the prudential write-downs of some receivables. For more details, please refer to Note 13 “Trade receivables”.

Note 41. Net financial expenses

Financial income and expenses are detailed below:

€ thousand	As of December 31, 2023	As of December 31, 2022
Financial income (expenses)	**(36,493)**	**(33,974)**
- Financial expenses on notes	(23,953)	(18,039)
- Financial expenses on shareholders' Loan	(7,914)	(13,656)
- Financial expenses on RCF	(1,042)	(1,325)
- Other financial expenses	(3,583)	(955)
Net exchange rate gain (losses)	**(310)**	**345**
- Profit exchange rates	828	1,597
- Losses on exchange rates	(1,139)	(1,252)
Net financial expenses	**(36,803)**	**(33,629)**

Financial expenses

Financial expenses mainly refer to the interest on the Bank loans and the interest on the Shareholder Loan.

Net exchange rate gain (losses)

These gains have been calculated considering the exchange rate of the transaction occurred or the exchange rate as of December 31, 2023.

Note 42. Income Taxes

The allocation for the period income taxes for the consolidated companies was made based on the presumed tax liability under current law.

Income taxes throughout the period are calculated as follows:

€ thousand	As of December 31, 2023	As of December 31, 2022
Current taxes	5,941	4,804
Deferred taxes	(536)	(674)
Other income taxes	(2,237)	-
Total income taxes	**3,169**	**4,130**

Other income taxes includes:

- Euro -1.205 of income taxes related to previous year,
- Euro -1.032 of income from tax consolidation

Note 43. Guarantees, commitments and liabilities not arising from the Balance Sheet

Notes and Shareholders' loan subscribed in 2021 in order to finance the acquisition of the entire share capital of Conceria Pasubio S.p.A., provides the following guarantees:

- pledge on all the shares of the target company Conceria Pasubio S.p.A.;
- pledge on the intercompany loan granted by Leather S.p.A. to Conceria Pasubio S.p.A..

Note 44. Remuneration of Directors and Statutory Auditors

Remuneration of Directors, Statutory Auditors are detailed below:

€ thousand	As of December 31, 2023
Board of Directors	2,313
Board of Statutory Auditors	39
Total	**2,352**

Remuneration of Independent Audit Firm and entities of the same network are detailed below:

€ thousand	As of December 31, 2023
Audit Firm	
Audit of the Consolidated Financial Statement	138
Other Services	15
Other entities of the same network	74
Total	**153**

Other services relate to the services that the statutory auditor had to perform according to the article 2501 bis 5th paragraph of the Italian Civil Code "Mergers through leveraged buyouts".

Note 45. Subsequent events occurred after December 31, 2023

Pasubio Mexico

During the just concluded exercise, the Company's reference market, namely the European automotive market, has shown a recovering landscape, despite persistent challenges. The recovery has been influenced by automotive stimulus policies, improvement in the supply chain situation, and stabilization of the Russia-Ukraine conflict, shifting the market from a supply-dominated situation to one driven by demand. Nevertheless, the prospects for recovery remain cautious, still below pre-pandemic levels. The economic context remains challenging, with the European economy slipping into a mild recession by late 2023, impacted by tense labor market conditions, declining inflation, and interest rate policies potentially reaching their peak, with forecasts of cuts by mid-2024.

European automotive production in 2023 increased compared to the previous year, with Germany, the United Kingdom, Spain, and France recording the highest production increments. However, a reduction in volumes is expected in 2024, with production volumes anticipated to stabilize from 2025 onwards. Given the modest growth expected in the coming years for the European market, the Company is entering the North American market through new projects and the acquisition of a new facility in Mexico, where the group will serve automotive customers for productions in the American continent.
In the early months of 2024, the Company established a new legal entity in Leon, Mexico, which is already an industrial park with several active tanneries. The group has decided to strengthen its presence in the country (already present with the company GD Servicio International del Norte) in order to develop an industrial plant for leather production in North America. This entity will become operational between late 2024 and early 2025, coinciding with the launch of the new program.